Abu Dhabi Commercial Bank PJSC

Consolidated financial statements
For the year ended December 31, 2014

Consolidated financial statements are also available at:
www.adcb.com

بنك أبوظبي التجاري
ADCB

Table of Contents

pwc

Report of the independent auditor on the consolidated financial statements

To the Shareholders of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, U.A.E.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C. ("the Bank") and its subsidiaries (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers , Abu Dhabi Trade Centre, 9th Floor, PO Box 45263, Abu Dhabi, United Arab Emirates
T: +971 (0)2 694 6800, F: +971 (0)2 645 6610, www.pwc.com/me

pwc

Report of the independent auditor on the consolidated financial statements (continued)

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Further, in respect of the Bank, as required by the UAE Federal Law No. (8) of 1984, as amended, we report that we have obtained all the information we considered necessary for the purposes of our audit; the financial statements of the Bank comply, in all material respects, with the applicable provisions of the U.A.E. Federal Law No. (8) of 1984, as amended, and its Articles of Association; the Bank has maintained proper books of account and the financial statements are in agreement therewith; and nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2014. Further, as required by the UAE Union Law No. (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

For **PricewaterhouseCoopers**
25 January 2015

....
Jacques E. Fakhoury
Registered Auditor Number 379
Abu Dhabi, United Arab Emirates

Consolidated statement of financial position

As at December 31, 2014

	Notes	2014 AED'000	2013 AED'000	2014 USD'000
ASSETS				
Cash and balances with central banks	5	15,092,192	9,961,206	4,108,955
Deposits and balances due from banks	6	16,019,461	11,344,700	4,361,411
Trading securities	7	199,599	884,640	54,342
Derivative financial instruments	8	4,288,506	3,616,203	1,167,576
Investment securities	9	21,651,838	20,854,772	5,894,865
Loans and advances, net	10	140,562,498	131,648,670	38,269,126
Investment in associate	52	195,854	-	53,323
Investment properties	11	615,778	560,690	167,650
Other assets	12	4,551,844	3,404,638	1,239,271
Property and equipment, net	13	806,188	805,322	219,490
Intangibles assets	14	35,705	61,695	9,720
Total assets		**204,019,463**	183,142,536	**55,545,729**
LIABILITIES				
Due to banks	15	4,089,019	4,291,011	1,113,264
Derivative financial instruments	8	5,000,067	3,965,587	1,361,303
Deposits from customers	16	126,011,227	115,427,708	34,307,440
Euro commercial paper	17	6,375,284	5,940,435	1,735,716
Borrowings	18	30,320,121	23,785,568	8,254,866
Other liabilities	19	5,804,912	4,910,917	1,580,428
Total liabilities		**177,600,630**	158,321,226	**48,353,017**
EQUITY				
Share capital	20	5,595,597	5,595,597	1,523,441
Share premium		3,848,286	3,848,286	1,047,723
Other reserves, net of treasury shares	21	5,791,798	5,135,440	1,576,857
Retained earnings		7,172,755	5,597,275	1,952,832
Capital notes	24	4,000,000	4,000,000	1,089,028
Equity attributable to equity holders of the Bank		**26,408,436**	24,176,598	**7,189,881**
Non-controlling interests		**10,397**	644,712	**2,831**
Total equity		**26,418,833**	24,821,310	**7,192,712**
Total liabilities and equity		**204,019,463**	183,142,536	**55,545,729**

These consolidated financial statements were approved by the Board of Directors and authorised for issue on January 25, 2015 and signed on its behalf by:

Mohamed Sultan Ghannoum Al Hameli
Vice Chairman

Ala'a Eraiqat
Chief Executive Officer

Deepak Khullar
Chief Financial Officer

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended December 31, 2014

	Notes	2014 AED'000	2013 AED'000	2014 USD'000
Interest income	25	6,367,955	6,519,957	1,733,720
Interest expense	26	(1,288,783)	(1,551,605)	(350,880)
Net interest income		5,079,172	4,968,352	1,382,840
Income from Islamic financing	22	617,433	596,818	168,100
Islamic profit distribution	22	(112,096)	(135,988)	(30,519)
Net income from Islamic financing		505,337	460,830	137,581
Total net interest and Islamic financing income		5,584,509	5,429,182	1,520,421
Net fees and commission income	27	1,242,948	992,536	338,401
Net trading income	28	406,988	537,393	110,805
Revaluation of investment properties	11	22,330	-	6,079
Other operating income	29	272,623	360,508	74,225
Operating income		7,529,398	7,319,619	2,049,931
Operating expenses	30	(2,563,060)	(2,358,186)	(697,811)
Operating profit before impairment allowances		4,966,338	4,961,433	1,352,120
Impairment allowances	31	(762,247)	(1,334,298)	(207,527)
Profit before taxation		4,204,091	3,627,135	1,144,593
Overseas income tax expense		(2,707)	(7,491)	(737)
Net profit for the year		4,201,384	3,619,644	1,143,856
Attributed to:				
Equity holders of the Bank		4,049,731	3,365,309	1,102,567
Non-controlling interests		151,653	254,335	41,289
Net profit for the year		4,201,384	3,619,644	1,143,856
Basic earnings per share	32	0.74	0.59	0.20
Diluted earnings per share	32	0.74	0.58	0.20

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended December 31, 2014

	2014 AED'000	2013 AED'000	2014 USD'000
Net profit for the year	**4,201,384**	3,619,644	**1,143,856**
Items that may be re-classified subsequently to the consolidated income statement			
Exchange difference arising on translation of foreign operations	**(3,699)**	(25,353)	**(1,007)**
Fair value changes on cash flow hedges	**(52,083)**	14,044	**(14,180)**
Fair value changes on available-for-sale investments	**(99,466)**	(65,690)	**(27,080)**
	(155,248)	(76,999)	**(42,267)**
Items that may not be re-classified subsequently to the consolidated income statement			
Actuarial losses on defined benefit liability	**(25,887)**	-	**(7,048)**
Total comprehensive income for the year	**4,020,249**	3,542,645	**1,094,541**
Attributed to:			
Equity holders of the Bank	**3,868,596**	3,288,310	**1,053,252**
Non-controlling interests	**151,653**	254,335	**41,289**
Total comprehensive income for the year	**4,020,249**	3,542,645	**1,094,541**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended December 31, 2014

	Share capital AED'000	Share premium AED'000	Other reserves, net of treasury shares AED'000	Retained earnings AED'000	Capital notes AED'000	Equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at January 1, 2014	**5,595,597**	**3,848,286**	**5,135,440**	**5,597,275**	**4,000,000**	**24,176,598**	**644,712**	**24,821,310**
Net profit for the year	-	-	-	**4,049,731**	-	**4,049,731**	**151,653**	**4,201,384**
Other comprehensive loss for the year	-	-	**(155,248)**	**(25,887)**	-	**(181,135)**	-	**(181,135)**
Other movements (Note 21)	-	-	**811,606**	**(792,635)**	-	**18,971**	-	**18,971**
Dividends to equity holders of the parent	-	-	-	**(1,560,857)**	-	**(1,560,857)**	-	**(1,560,857)**
Net increase in non-controlling interests	-	-	-	-	-	-	**50,527**	**50,527**
Disposal of fund subsidiaries (Note 51)	-	-	-	-	-	-	**(836,495)**	**(836,495)**
Net gains on treasury shares arising on disposal of fund subsidiaries (Note 51)	-	-	-	**91,521**	-	**91,521**	-	**91,521**
Capital notes coupon paid (Note 24)	-	-	-	**(186,393)**	-	**(186,393)**	-	**(186,393)**
Balance at December 31, 2014	**5,595,597**	**3,848,286**	**5,791,798**	**7,172,755**	**4,000,000**	**26,408,436**	**10,397**	**26,418,833**
Balance at January 1, 2013	5,595,597	3,848,286	6,288,591	4,537,315	4,000,000	24,269,789	437,800	24,707,589
Net profit for the year	-	-	-	3,365,309	-	3,365,309	254,335	3,619,644
Other comprehensive loss for the year	-	-	(76,999)	-	-	(76,999)	-	(76,999)
Other movements (Note 21)	-	-	(1,076,152)	(673,062)	-	(1,749,214)	-	(1,749,214)
Dividends paid to equity holders of the parent, net	-	-	-	(1,397,983)	-	(1,397,983)	-	(1,397,983)
Net decrease in non-controlling interests	-	-	-	-	-	-	(47,423)	(47,423)
Net realised gain on treasury shares	-	-	-	5,696	-	5,696	-	5,696
Capital notes coupon paid (Note 24)	-	-	-	(240,000)	-	(240,000)	-	(240,000)
Balance at December 31, 2013	5,595,597	3,848,286	5,135,440	5,597,275	4,000,000	24,176,598	644,712	24,821,310

For the year ended December 31, 2014, the Board of Directors has proposed to pay cash dividends representing 40% of the paid up capital (Note 20).

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended December 31, 2014

	2014 AED'000	2013 AED'000	2014 USD'000
OPERATING ACTIVITIES			
Profit before taxation	**4,204,091**	3,627,135	**1,144,593**
Adjustments for:			
Depreciation on property and equipment (Note 13)	**132,008**	127,222	**35,940**
Amortisation of intangible assets (Note 14)	**25,990**	30,431	**7,076**
Revaluation of investment properties (Note 11)	**(22,330)**	-	**(6,079)**
Impairment allowance on loans and advances, net (Note 41.6)	**1,040,551**	1,554,120	**283,297**
Discount unwind (Note 41.6)	**(160,011)**	(144,016)	**(43,564)**
Impairment recoveries, net of allowances on investment securities (Note 31)	**(48,952)**	(31,858)	**(13,328)**
Net gains from disposal of available-for-sale investments (Note 29)	**(22,201)**	(32,911)	**(6,044)**
Net gains from trading securities (Note 28)	**(98,071)**	(307,282)	**(26,701)**
Ineffective portion of hedges – losses (Note 8)	**4,091**	9,238	**1,114**
Employees' incentive plan benefit expense (Note 23)	**29,309**	39,448	**7,980**
Cash flow from operating activities before changes in operating assets and liabilities	**5,084,475**	4,871,527	**1,384,284**
(Increase)/decrease in balances with central banks	**(2,050,000)**	1,025,000	**(558,127)**
Increase in due from banks	**(2,799,044)**	(5,692,166)	**(762,059)**
(Increase)/decrease in net trading derivative financial instruments	**(19,229)**	42,957	**(5,235)**
Net proceeds from disposal of trading securities	**20,026**	64,519	**5,452**
Increase in loans and advances, net	**(10,018,841)**	(9,864,527)	**(2,727,700)**
Increase in other assets	**(440,627)**	(39,573)	**(119,964)**
Increase/(decrease) in due to banks	**65,024**	(278,943)	**17,703**
Increase in deposits from customers	**10,571,899**	6,164,461	**2,878,274**
(Decrease)/increase in other liabilities	**(63,752)**	507,322	**(17,356)**
Cash from/(used in) operations	**349,931**	(3,199,423)	**95,272**
Overseas tax paid, net	**(7,554)**	(9,717)	**(2,057)**
Net cash from/(used in) operations	**342,377**	(3,209,140)	**93,215**
INVESTING ACTIVITIES			
Impairment recoveries on available-for-sale investments	**48,952**	31,858	**13,328**
Overseas tax refund/(paid), net	**3,575**	(34,196)	**973**
Net purchase of available-for-sale investments	**(7,751,616)**	(4,643,834)	**(2,110,432)**
Net proceeds from disposal of available-for-sale investments	**6,990,331**	2,257,177	**1,903,167**
Additions to investment properties (Note 11)	**(12,091)**	(17,236)	**(3,292)**
Cash received on disposal of fund subsidiaries (Note 51)	**95,112**	-	**25,895**
Net purchase of property and equipment	**(132,874)**	(82,610)	**(36,176)**
Net cash used in investing activities	**(758,611)**	(2,488,841)	**(206,537)**
FINANCING ACTIVITIES			
Net increase in euro commercial paper	**678,931**	1,404,151	**184,844**
Net proceeds from borrowings	**27,665,694**	12,933,276	**7,532,179**
Repayment of borrowings	**(20,967,704)**	(14,553,447)	**(5,708,604)**
Net proceeds from sale of treasury shares by fund subsidiaries	**1,751**	14,621	**477**
Dividends paid to shareholders, net	**(1,560,857)**	(1,397,983)	**(424,954)**
Share buyback (Note 20)	**(11,691)**	(1,796,957)	**(3,183)**
Net movement in non-controlling interests	**50,527**	(47,423)	**13,756**
Purchase of employees' incentive plan shares	**(31,459)**	(630)	**(8,565)**
Capital notes coupon paid (Note 24)	**(186,393)**	(240,000)	**(50,747)**
Net cash from/(used in) financing activities	**5,638,799**	(3,684,392)	**1,535,203**
Net increase/(decrease) in cash and cash equivalents	**5,222,565**	(9,382,373)	**1,421,881**
Cash and cash equivalents at the beginning of the year	**9,797,941**	19,180,314	**2,667,557**
Cash and cash equivalents at the end of the year (Note 34)	**15,020,506**	9,797,941	**4,089,438**

Operating activities include dividend income and interest income on available-for-sale investments.

The accompanying notes are an integral part of these consolidated financial statements.

1. Activities and areas of operations

Abu Dhabi Commercial Bank PJSC ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the emirate of Abu Dhabi, United Arab Emirates (UAE). ADCB is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services through its network of fifty branches and four pay offices in the UAE, two branches in India, one offshore branch in Jersey and its subsidiaries and one representative office located in London.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

ADCB is registered as a public joint stock company in accordance with the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended).

2. Application of new and revised International Financial Reporting Standards (IFRSs)

Amendments:

IAS 32 - Financial Instruments: Presentation requires presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off ',
- the application of simultaneous realisation and settlement,
- the offsetting of collateral amounts and
- the unit of account for applying the offsetting requirements.

IAS 39 - Financial Instruments: Recognition and Measurement: make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 27 - Separate Financial Statements relate only to investment entities, therefore will not apply to the Bank.

These amendments do not have any material impact on the Bank's consolidated financial statements.

Other than the above, there are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning January 1, 2014 that are relevant to the Bank's consolidated financial statements.

Annual improvements to IFRSs 2010-2012

The annual improvements to IFRSs 2010-2012 include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 2: (i) change the definitions of 'vesting condition' and market condition; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. These amendments are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in income statement. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after July 1, 2014.

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Annual improvements to IFRSs 2010-2012 (continued)

The amendments to IFRS 8 (i) require an entity to disclose judgments made by management in applying the aggregation criteria to operating segments, including the description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis of conclusion of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

Annual improvements to IFRSs 2011-2013

The annual improvements to IFRSs 2011-2013 include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definition of financial assets or liabilities within IAS 32.

Management do not anticipate that the application of these improvements will have a significant impact on the Bank's consolidated financial statements.

Standards and Interpretations in issue but not yet effective

The Bank has not early adopted any new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Bank:	**Effective for annual periods beginning on or after**
Amendments:	
IAS 27 - Separate Financial Statements permits investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.	January 1, 2016

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Bank	Effective for annual periods beginning on or after
Amendments (continued):	
IFRS 7 - Financial Instruments: Disclosures (with consequential amendments to IFRS 1) adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required and clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.	January 1, 2016
IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) clarifies the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows: - require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations) - require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture. These requirements apply regardless of the legal form of the transaction, e.g. whether the sale or contribution of assets occurs by an investor transferring shares in a subsidiary that holds the assets (resulting in loss of control of the subsidiary), or by the direct sale of the assets themselves.	January 1, 2016
New Standards:	
IFRS 15 - Revenue from Contracts with Customers provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.	January 1, 2017
IFRS 9 - Financial Instruments: Classification and Measurement - A finalised version has been issued which contains accounting requirements for financial instruments, replacing IAS 39 - Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: - Classification and measurement - financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. It introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner as under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. - Impairment - IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised - Hedge accounting - introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures - Derecognition - The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	January 1, 2018

Management anticipates that these IFRSs and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

3. Summary of significant accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

As required by the Securities and Commodities Authority of the UAE ("SCA") Notification No. 2624/2008 dated October 12, 2008, the Bank's exposure in cash and balances with central banks, deposits and balances due from banks, trading and investment securities outside the UAE have been presented under the respective notes.

Certain disclosure notes have been reclassified and rearranged from the Bank's prior year consolidated financial statements to conform to the current year's presentation.

3.2 Measurement

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities at fair value through profit and loss, available-for-sale financial assets and investment properties.

3.3 Functional and presentation currency

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The United States Dollar (USD) amounts in the primary financial statements are presented for the convenience of the reader only by converting the AED balances at the pegged exchange rate of 1 USD = 3.673 AED.

3.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank PJSC, its subsidiaries (collectively referred to as “ADCB or the “Bank”) and its associate.

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When a company has less than a majority of voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank’s voting rights in an investee are sufficient to give it power, including:

- the size of the Bank’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision need to be made, including voting patterns at previous shareholders’ meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specially, income and expenses of subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with the Bank’s accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Subsidiaries (continued)

Changes in the Bank's ownership interests in existing subsidiaries:

Changes in Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

Special Purpose Entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. A SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank's power over the SPE, exposures or rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over a SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and a SPE.

Funds Management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above, or is the principal investor. Information about the Funds managed by the Bank is set out in Note 48.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Investment in associate

Associates are those entities in which the Bank has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20% to 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Bank's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases.

When the Bank's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the investee.

Joint arrangements

Joint arrangements are arrangements of which the Bank has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

Joint operation – when the Bank has rights to the assets and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

Joint venture – when the Bank has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

3.6 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either consolidated income statement or consolidated other comprehensive income statement depending upon the nature of the asset or liability.

3. Summary of significant accounting policies (continued)

3.6 Foreign currencies (continued)

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches and subsidiaries whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange prevailing at the statement of financial position date. The results of branches and subsidiaries whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign currency translation reserve' (Note 21).

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

3.7 Financial instruments

Date of recognition

All financial assets and liabilities are initially recognised on the date at which the Bank becomes a party to the contractual provision of the instrument except for "regular way" purchases and sales of financial assets which are recognised on settlement date basis (other than derivative contracts). Settlement date is the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading, in other comprehensive income for assets classified as available-for-sale and no adjustments are recognised for assets carried at cost or amortised cost.

Measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value, plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain on dealing in derivatives (Note 28).

Financial assets and liabilities designated at fair value through profit or loss (FVTPL)

Financial assets and liabilities are classified as at FVTPL when either held for trading or when designated as at FVTPL.

A financial asset or liability is classified as held for trading if:
- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset or liability other than held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise for measuring assets or liabilities on a different basis; or
- it forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives and IAS 39 - Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets and liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in consolidated income statement.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Held-to-maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the positive intention and ability to hold to maturity are classified as held to maturity investments.

Held-to-maturity investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognised on an effective yield basis.

Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

If there is objective evidence that an impairment on held to maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognised in the consolidated income statement is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the investments' original effective interest rate.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available-for-sale

Investments not classified as either "fair value through profit or loss" or "held-to-maturity" are classified as "available-for-sale". Available-for-sale assets are intended to be held for an indefinite period of time and may be sold in response to liquidity requirements or changes in interest rates, commodity prices or equity prices.

Available-for-sale investments are initially recognised at fair value plus any directly attributable transaction costs and are subsequently measured at fair value. The fair values of quoted financial assets in active markets are based on current prices. If the market for a financial asset is not active, and for unquoted securities, the Bank establishes fair value by using valuation techniques (e.g. recent arms length transactions, discounted cash flow analysis and other valuation techniques). Only in very rare cases where fair value cannot be measured reliably, investments are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in the other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

If an available-for-sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Available-for-sale (continued)

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the consolidated income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value.

- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income, accumulating in equity. A subsequent decline in the fair value of the instrument is recognised in the consolidated income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security. Impairment losses recognised on the equity security are not reversed through the consolidated income statement.

Deposits and balances due from banks and loans and advances, net

Deposits and balances due from banks and loans and advances, net include non–derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investments will be recovered other than because of credit deterioration. Placements with banks represent time bound term deposits.

After initial measurement at fair value plus any directly attributable transaction costs, deposits and balances due from banks and loans and advances, net are subsequently measured at amortised cost using the effective interest rate, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the consolidated income statement.

Debt issued and other borrowed funds

Financial instruments issued by the Bank are classified as liabilities, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. These are recognised initially at fair value, net of transaction costs.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Reclassification of financial assets

Reclassifications are recorded at fair value at the date of reclassification, which is recognised as the new amortised cost.

For a financial asset reclassified out of the available–for–sale category, any previous gain or loss on that asset recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the consolidated income statement.

The Bank may in rare circumstances reclassify a non–derivative trading asset out of the held–for–trading category into the loans and receivables category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

Reclassification is at the election of management and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
  - the Bank has transferred substantially all the risks and rewards of the asset, or
  - the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has neither transferred its rights to receive cash flows from an asset nor has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or extinguishment is treated as a derecognition of the original liability and the recognition of a new liability.

3. Summary of significant accounting policies (continued)

3.7 Financial instruments (continued)

Derecognition of financial assets and financial liabilities (continued)

Financial liabilities (continued)

The difference between the carrying value of the original financial liability and the consideration paid is recognised in consolidated income statement.

Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities but, where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented on a gross basis.

3.8 Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included in Deposits and balances due from banks. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

3.9 Securities borrowing and lending

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised in the statement of financial position nor are lent securities derecognised. Cash collateral received or given is treated as a financial asset or liability. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse repos.

3.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with central banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.11 Loan impairment

Refer to credit risk management section – Note 41.6.

3. Summary of significant accounting policies (continued)

3.12 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3.13 Fair value measurement

The Bank measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Bank considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Bank measures its non financial assets at a price that take into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account into pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or a liability nor based on valuation technique that uses only data from observable markets, the instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either the market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

3. Summary of significant accounting policies (continued)

3.13 Fair value measurement (continued)

The Bank's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3.14 Hedge accounting

Derivatives designated as hedges are classified as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in future cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated in this way provided certain criteria are met.

At the inception of a hedging relationship, to qualify for hedge accounting, the Bank documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest income and expense on designated qualifying hedge instruments is included in 'Net interest income'.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the changes in fair value of both the derivative and the hedged item attributable to hedged risk are recognised in the consolidated income statement and the carrying amount of the hedged item is adjusted accordingly. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to the carrying value of a hedged item, for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective part is recognised immediately in the consolidated income statement. Amounts accumulated in equity are reclassified from other comprehensive income and transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting.

Any cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement from other comprehensive income.

3. Summary of significant accounting policies (continued)

3.14 Hedge accounting (continued)

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and held in the net investment hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are reclassified from other comprehensive income and included in the consolidated income statement on the disposal of the foreign operation.

Hedge effectiveness testing

To qualify for hedge accounting, the Bank requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Bank adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent. Hedge ineffectiveness is recognised in the consolidated income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in “net gains on dealing in derivatives” under Net trading income (Note 28).

3.15 Equity instruments

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:
- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.

(b) If the instrument will or may be settled in the Bank’s own equity instruments, it is:
- a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
- a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

3. Summary of significant accounting policies (continued)

3.16 Treasury shares and contracts on own shares

Own equity instruments of the Bank which are acquired by the Bank or any of its subsidiaries (treasury shares) are deducted from other reserves and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

3.17 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantee contracts are initially recognised at their fair value, which is likely to equal the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3.18 Acceptances

Acceptances have been considered within the scope of IAS 39 - Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.19 Collateral pending sale

The Bank acquires collaterals in settlement of certain loans and advances. On initial recognition, these collaterals are recognised at net realisable value on the date of acquisition. Subsequently, the fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on these collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

3.20 Impairment of non-financial assets

At each consolidated statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Summary of significant accounting policies (continued)

3.20 Impairment of non-financial assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.21 Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee - Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rentals payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor - Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease receivables are recognised as an income in the consolidated income statement on a straight line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3.22 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer Note 3.13 for policy on fair valuation.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Investment properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment properties under development are included in the consolidated income statement in the period in which they arise.

3.23 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss, if any. Cost includes expenditure that is directly attributable to the acquisition of the asset. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

3. Summary of significant accounting policies (continued)

3.23 Property and equipment (continued)

Depreciation is charged to the consolidated income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated.

Estimated useful lives are as follows:

Freehold properties	25 years
Leasehold and freehold improvements	7 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment and accessories	3 to 10 years

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3.24 Business combinations and Goodwill

The purchase method of accounting is used to account for business acquisitions by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

Goodwill acquired on business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Bank's cash generating units that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss of goodwill is recognised directly in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

3.25 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Bank's policies.

3.26 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

3. Summary of significant accounting policies (continued)

3.26 Borrowing costs (continued)

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

3.27 Mandatory convertible securities

The components of mandatory convertible securities issued by the Bank are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity and is not subsequently re-measured.

3.28 Employee benefits

(i) Employees' end of service benefits

(a) Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in income, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

(b) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees.

Pension and national insurance contributions for the UAE and GCC citizens are made by the Bank to the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with UAE Federal Law No. 7 of 1999.

3. Summary of significant accounting policies (continued)

3.28 Employee benefits (continued)

(ii) Termination benefits

Termination benefits are recognised as an expense when the Bank is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

Where the terms of an equity–settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share–based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity–settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non–vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 32).

3.29 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts are recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3. Summary of significant accounting policies (continued)

3.29 Provisions and contingent liabilities (continued)

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.30 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Refer to Note 37 on Business Segment reporting.

3.31 Taxation

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Bank operates.

3.32 Intangible assets

The Bank's intangible assets other than goodwill include intangible assets acquired in business combinations.

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the bank. Intangible assets acquired separately are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed once a year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Estimated useful lives are as follows:

Credit card customer relationships	3 years
Wealth Management customer relationships	4 years
Core deposit intangibles	5 years

3. Summary of significant accounting policies (continued)

3.33 Revenue and expense recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

(i) Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available–for–sale and financial instruments designated at fair value through profit or loss, interest and similar income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

(iii) Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3.34 Islamic financing

The Bank engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Ijara, Salam, Mudaraba, Sukuk and Wakala. These are accounted in accordance with IAS 39 – Financial instrument: Recognition and Measurement.

3. Summary of significant accounting policies (continued)

3.34 Islamic financing (continued)

Murabaha financing

A sale contract whereby the Bank sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Bank purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Ijara financing

Ijara financing is an agreement whereby the Bank (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Bank transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

Mudaraba

A contract between the Bank and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Bank is the Rab Al Mal the losses are charged to the Bank's consolidated income statement when incurred.

Salam

Bai Al Salam is a sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Bank (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Wakala

An agreement between the bank and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Bank may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

Sukuk forms part of debts issued and other borrowed funds as mentioned in Note 18.

4. Significant accounting judgments, estimates and assumptions

The reported results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS require the management, in preparing the Bank's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Bank's accounting policies that are considered by the Board of Directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Bank would affect its reported results.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (real estate price indices, country risk and the performance of different groups, etc).

The impairment loss on loans and advances is disclosed in more detail in Note 41.6.

Impairment of available-for-sale investments

The Bank exercises judgment to consider impairment on the available-for-sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

Valuation of financial instruments

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

4. Significant accounting judgments, estimates and assumptions (continued)

Valuation of financial instruments (continued)

Valuation techniques used to calculate fair values are discussed in Note 39. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgment may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

Fair valuation of investment properties

The fair value of investment properties is based on current prices in an active market for properties of a similar nature, condition or location. The Bank bases its estimate of fair value of its investment properties on valuations carried out by independent valuers. The valuations are based upon assumptions such as market conditions, market prices, future rental income and period, etc.

The fair value movements on investment properties are disclosed in more detail in Note 11.

Consolidation of Funds

The changes introduced by IFRS 10 – Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Bank to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated. This judgement has been applied in relation to the Bank's equity investments in three mutual funds where, through its investment management role, the Bank has lost de-facto control over Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund on redemption of units held by the Bank in these investees (Refer Note 51). There are no other investments where significant judgement is required as to whether or not to consolidate.

5. Cash and balances with central banks

	2014 AED'000	2013 AED'000
Cash on hand	**786,474**	586,709
Balances with central banks	**1,359,247**	370,743
Reserves maintained with central banks	**9,401,659**	7,448,647
Certificate of deposits with UAE Central Bank	**3,525,000**	1,475,000
Reverse repo with Central Bank	**19,812**	80,107
Total cash and balances with central banks	**15,092,192**	9,961,206
The geographical concentration is as follows:		
Within the UAE	**15,048,413**	9,857,886
Outside the UAE	**43,779**	103,320
	15,092,192	9,961,206

Reserves maintained with central banks represents deposit with the central banks at stipulated percentages of its demand, savings, time and other deposits. These are only available for day to day operations under certain specified conditions.

6. Deposits and balances due from banks

	2014 AED'000	2013 AED'000
Nostro balances	**769,268**	1,031,020
Margin deposits	**179,426**	232,021
Time deposits	**10,681,616**	8,061,659
Reverse repo placements	**2,830,049**	-
Murabaha placements	**-**	1,870,000
Wakala placements	**1,375,546**	150,000
Certificate of deposits	**183,556**	-
Total deposits and balances due from banks	**16,019,461**	11,344,700
The geographical concentration is as follows:		
Within the UAE	**7,179,030**	4,614,768
Outside the UAE	**8,840,431**	6,729,932
	16,019,461	11,344,700

The Bank entered into collateral swap agreements under which bonds with fair value of AED 2,814,042 thousand (December 31, 2013 – AED Nil) were received as collateral against reverse-repo placements. The risks and rewards relating to these bonds remain with the counter parties.

The Bank hedges its foreign currency time deposits for foreign currency exchange rate risk using foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these swaps was AED 1,153 thousand as at December 31, 2014 (December 31, 2013 – AED Nil).

7. Trading securities

	2014 AED'000	2013 AED'000
Bonds	**199,599**	136,772
Equity instruments	**-**	747,868
Total trading securities	**199,599**	884,640
The geographical concentration is as follows:		
Within the UAE	**176,540**	659,568
Outside the UAE	**23,059**	225,072
	199,599	884,640

Bonds represent investments mainly in public sector and banking institution bonds. The fair value of trading securities is based on quoted market prices. The decline in trading securities is mainly because of the disposal of fund subsidiaries in March 2014 (Note 51).

8. Derivative financial instruments

In the ordinary course of business the Bank enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:
(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
(c) it is settled at a future date.

Derivative financial instruments which the Bank enters into includes forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options.

The Bank uses the following derivative financial instruments for hedging and trading purposes.

Forward and Futures transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. The credit risk for futures contracts is negligible as they are collateralised by cash or marketable securities and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate based on a notional principal amount.

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example: fixed rate for floating rate) or a combination of all these (for example: cross-currency interest rate swaps). No exchange of principal takes place except for certain cross currency swaps. The Bank's credit risk represents the potential loss if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

Option transactions

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer over the counter (OTC).

Derivative contracts can be exchange traded or OTC. The Bank values exchange traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market based inputs or broker/dealer quotations. Where models are required, the Bank uses a variety of inputs, including contractual terms, market prices, market volatilities, yield curves and other reference market data.

8. Derivative financial instruments (continued)

Fair value measurement models

For OTC derivatives that trade in liquid markets such as generic forwards, swaps and options, model inputs can generally be verified and model selection conforms to market practice. Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Bank only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker dealer quotations or other empirical market data. In the absence of such evidence, management best estimates are used.

Derivatives held or issued for trading purposes

The Bank's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Bank also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. In all such cases, the hedging relationship and objectives including details of the hedged item and hedging instrument are formally documented and the transactions are accounted for based on the type of hedge.

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Fair values	
December 31, 2014	**Assets AED'000**	**Liabilities AED'000**
Derivatives held or issued for trading		
Foreign exchange derivatives	824,724	846,365
Interest rate and cross currency swaps	2,713,510	2,713,377
Options	117,054	170,155
Futures (exchange traded)	2,536	146
Commodity and energy swaps	295,998	295,557
Swaptions	91,383	16,221
Total derivatives held or issued for trading	**4,045,205**	**4,041,821**
Derivatives held as fair value hedges		
Interest rate and cross currency swaps	220,978	708,262
Derivatives held as cash flow hedges		
Interest rate and cross currency swaps	19,109	29,722
Forward foreign exchange contracts	3,214	220,262
Total derivatives held as cashflow hedges	**22,323**	**249,984**
Total derivative financial instruments	**4,288,506**	**5,000,067**

8. Derivative financial instruments (continued)

December 31, 2013	Fair values Assets AED'000	Liabilities AED'000
Derivatives held or issued for trading		
Foreign exchange derivatives	104,597	87,341
Interest rate and cross currency swaps	2,869,393	2,853,585
Options	58,591	156,821
Futures (exchange traded)	1,767	-
Commodity and energy swaps	36,767	36,385
Swaptions	70,685	23,513
Total derivatives held or issued for trading	3,141,800	3,157,645
Derivatives held as fair value hedges		
Interest rate and cross currency swaps	295,327	807,917
Derivatives held as cash flow hedges		
Interest rate and cross currency swaps	42,273	-
Forward foreign exchange contracts	136,803	25
Total derivatives held as cashflow hedges	179,076	25
Total derivative financial instruments	3,616,203	3,965,587

The contractual notional value of derivatives outstanding as at December 31, 2014 were AED 294,969,979 thousand (December 31, 2013 – AED 300,502,784 thousand). These notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk.

The net hedge ineffectiveness losses recognised in the consolidated income statement are as follows:

	2014 AED'000	2013 AED'000
(Losses)/gains on the hedged items attributable to risk hedged	**(28,594)**	554,369
Gains/(losses) on the hedging instruments	**25,306**	(564,084)
Fair value ineffectiveness	**(3,288)**	(9,715)
Cash flow hedging ineffectiveness	**(803)**	477
	(4,091)	(9,238)

The table below provides the Bank's forecast net cash flows in respect of its cash flow hedges and the periods in which these cash flows are expected to impact consolidated income statement, excluding any hedging adjustment that may be applied.

Forecast net cash flows	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to less than 2 years AED'000	2 years to less than 5 years AED'000	Total AED'000
2014	**(81,344)**	**(145,603)**	**(15,914)**	**(26,659)**	**(269,520)**
2013	104,430	42,034	1,334	17,508	165,306

As at December 31, 2014, the Bank received cash collateral of AED 262,370 thousand (December 31, 2013 - AED 341,993 thousand) against derivative assets from certain counterparties.

As at December 31, 2014, the Bank placed cash collateral of AED 552,202 thousand (December 31, 2013 – AED 280,378 thousand) and investment securities of AED 1,787,944 thousand (December 31, 2013 - AED 1,502,425 thousand) against the negative fair value of derivative liabilities.

9. Investment securities

December 31, 2014	UAE AED'000	Other GCC countries AED'000	Rest of the world AED'000	Total AED'000
Available-for-sale investments				
Quoted:				
Government securities	**1,528,323**	**1,678,831**	**1,523,242**	**4,730,396**
Bonds – Public sector	**4,407,000**	**45,090**	**286,869**	**4,738,959**
Bonds – Banks and financial institutions	**2,740,513**	**757,993**	**7,026,279**	**10,524,785**
Bonds – Corporate	**116,358**	**-**	**42,292**	**158,650**
Equity instruments	**824**	**-**	**-**	**824**
Mutual funds	**165,835**	**-**	**-**	**165,835**
Total quoted	**8,958,853**	**2,481,914**	**8,878,682**	**20,319,449**
Unquoted:				
Government securities	**-**	**895,713**	**-**	**895,713**
Bonds – Public sector	**57,699**	**-**	**-**	**57,699**
Bonds – Corporate	**-**	**-**	**761**	**761**
Equity instruments	**314,855**	**-**	**13,281**	**328,136**
Mutual funds	**50,080**	**-**	**-**	**50,080**
Total unquoted	**422,634**	**895,713**	**14,042**	**1,332,389**
Total available-for-sale investments	**9,381,487**	**3,377,627**	**8,892,724**	**21,651,838**
December 31, 2013				
Available-for-sale investments				
Quoted:				
Government securities	2,675,550	1,294,248	487,908	4,457,706
Bonds – Public sector	5,428,547	491,255	-	5,919,802
Bonds – Banks and financial institutions	2,249,622	834,683	6,926,363	10,010,668
Bonds – Corporate	90,833	-	-	90,833
Equity instruments	1,028	-	-	1,028
Total quoted	10,445,580	2,620,186	7,414,271	20,480,037
Unquoted:				
Bonds – Public sector	58,147	-	-	58,147
Bonds – Banks and financial institutions	-	-	32	32
Bonds – Corporate	-	-	1,131	1,131
Equity instruments	230,476	-	13,240	243,716
Mutual funds	71,709	-	-	71,709
Total unquoted	360,332	-	14,403	374,735
Total available-for-sale investments	10,805,912	2,620,186	7,428,674	20,854,772

The Bank hedges interest rate and foreign currency risks on certain fixed rate and floating rate investments through interest rate and cross currency swaps and designates these as fair value and cash flow hedges, respectively. The net negative fair value of these interest rate swaps at December 31, 2014 was AED 18,271 thousand (December 31, 2013 – net negative fair value AED 210,427 thousand). The hedge ineffectiveness gains and losses relating to these hedges were included in the consolidated income statement.

The Bank entered into repurchase agreements and total return swap agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remained with the Bank. The following table reflects the carrying value of these bonds and the associated financial liabilities:

	2014		2013	
	Carrying value of pledged assets AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged assets AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**4,765,545**	**4,589,111**	2,390,637	2,274,631

9. Investment securities (continued)

Further, the Bank pledged investment securities with fair value amounting to AED 1,802,584 thousand (December 31, 2013 – AED 1,508,768 thousand) as collateral against margin calls. The risks and rewards on these pledged investments remained with the Bank.

The movement in investment securities is as follows:

	2014 AED'000	2013 AED'000
Opening balance	**20,854,772**	18,712,916
Purchases, net (*)	**8,015,861**	4,643,834
Disposals including capital refunds	**(6,968,130)**	(2,224,266)
Fair value adjustments	**(156,396)**	(277,800)
Exchange difference	**(94,269)**	88
Closing balance	**21,651,838**	20,854,772

(*) included in current year purchases is AED 169,976 thousand arising on deconsolidation of fund subsidiaries (Note 51).

10. Loans and advances, net

	2014 AED'000	2013 AED'000
Overdrafts (Retail and Corporate)	**3,653,030**	4,396,183
Retail loans	**17,753,730**	14,957,734
Corporate loans	**103,580,954**	101,121,762
Credit cards	**2,776,695**	2,238,316
Islamic financing assets (Note 22)	**11,155,913**	10,666,627
Other facilities	**8,419,919**	5,157,995
Gross loans and advances	**147,340,241**	138,538,617
Less: Allowance for impairment (Note 41.6)	**(6,777,743)**	(6,889,947)
Total loans and advances, net	**140,562,498**	131,648,670

The Bank hedges certain fixed rate and floating rate loans and advances for interest rate risk using interest rate swaps and designates these instruments as fair value and cash flow hedges, respectively. The net positive fair value of these swaps at December 31, 2014 was AED 4,152 thousand (December 31, 2013 - net positive fair value of AED 9,103 thousand).

11. Investment properties

	Completed and in use AED'000	Under development AED'000	Total AED'000
January 1, 2013	264,695	264,700	529,395
Additions during the year	14,147	17,148	31,295
Transfer on completion of construction	281,848	(281,848)	-
January 1, 2014	**560,690**	**-**	**560,690**
Additions during the year	**32,758**	**-**	**32,758**
Revaluation of investment properties	**22,330**	**-**	**22,330**
December 31, 2014	**615,778**	**-**	**615,778**

Included in commitments and contingent liabilities (Note 36) is AED 1,740 thousand (December 31, 2013 - AED 11,872 thousand) being future committed expenditure on investment property.

11. Investment properties (continued)

Additions during the year include AED 20,667 thousand (December 31, 2013 - AED 14,059 thousand), being land and real estate acquired on settlements of certain loans and advances. This being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

As approved by the Central Bank of the UAE, the Bank can hold these real estate assets for a maximum period of three years and can extend the holding period with further approval. The Bank can also rent these properties and earn rental income.

Fair valuations

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. The properties were valued during the last quarter of the year.

The valuation methodologies considered by external valuers include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Bank are located within the UAE.

Details of rental income and direct operating expenses relating to investment properties are as follow:

	2014	2013
	AED'000	AED'000
Rental income	**39,917**	19,748
Direct operating expenses	**6,013**	2,403

12. Other assets

	2014	2013
	AED'000	AED'000
Interest receivable	**1,017,819**	911,968
Advance tax	**21,959**	79,603
Clearing receivables	**368**	404
Prepayments	**65,830**	38,985
Acceptances	**2,906,420**	2,140,725
Others	**539,448**	232,953
Total other assets	**4,551,844**	3,404,638

Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the bank and is therefore recognised as a financial liability (Note 19) in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

13. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2013	846,011	131,619	159,139	453,536	28,817	1,619,122
Exchange difference	(430)	(2)	(734)	-	(3)	(1,169)
Additions during the year	-	347	2,366	1,674	78,875	83,262
Transfers	3,652	4,664	6,547	46,179	(61,042)	-
Transfer to expenses	-	-	-	-	(4)	(4)
Disposals during the year	(251)	-	(576)	(166)	-	(993)
At January 1, 2014	**848,982**	**136,628**	**166,742**	**501,223**	**46,643**	**1,700,218**
Exchange difference	**(61)**	**-**	**(88)**	**-**	**-**	**(149)**
Additions during the year	**410**	**86**	**2,090**	**6,164**	**124,288**	**133,038**
Transfers	**5,435**	**7,611**	**8,694**	**109,457**	**(131,197)**	**-**
Disposals during the year	**-**	**-**	**(996)**	**(366)**	**-**	**(1,362)**
At December 31, 2014	**854,766**	**144,325**	**176,442**	**616,478**	**39,734**	**1,831,745**
Accumulated depreciation						
At January 1, 2013	227,237	73,588	125,954	342,409	-	769,188
Exchange difference	(50)	(2)	(542)	-	-	(594)
Charge for the year	37,304	18,023	12,965	58,930	-	127,222
Disposals during the year	(179)	-	(575)	(166)	-	(920)
At January 1, 2014	**264,312**	**91,609**	**137,802**	**401,173**	**-**	**894,896**
Exchange difference	**(17)**	**-**	**(24)**	**(53)**	**-**	**(94)**
Transfers	**-**	**-**	**(2,539)**	**2,539**	**-**	**-**
Charge for the year	**37,083**	**17,288**	**10,989**	**66,648**	**-**	**132,008**
Disposals during the year	**-**	**-**	**(920)**	**(333)**	**-**	**(1,253)**
At December 31, 2014	**301,378**	**108,897**	**145,308**	**469,974**	**-**	**1,025,557**
Carrying amount						
At December 31, 2014	**553,388**	**35,428**	**31,134**	**146,504**	**39,734**	**806,188**
At December 31, 2013	584,670	45,019	28,940	100,050	46,643	805,322

14. Intangible assets

		Other intangible assets			
	Goodwill AED'000	Credit card customer relationship AED'000	Wealth management customer relationship AED'000	Core deposit intangible AED'000	Total AED'000
Cost or valuation					
As at January 1, 2013	18,800	12,700	18,000	112,700	162,200
As at December 31, 2014	**18,800**	**12,700**	**18,000**	**112,700**	**162,200**
Accumulated amortisation					
As at January 1, 2013	-	9,409	9,950	50,715	70,074
Amortisation during the year	-	3,291	4,600	22,540	30,431
As at January 1, 2014	**-**	**12,700**	**14,550**	**73,255**	**100,505**
Amortisation during the year	**-**	**-**	**3,450**	**22,540**	**25,990**
As at December 31, 2014	**-**	**12,700**	**18,000**	**95,795**	**126,495**
Carrying amount					
At December 31, 2014	**18,800**	**-**	**-**	**16,905**	**35,705**
At December 31, 2013	18,800	-	3,450	39,445	61,695

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the UAE for a consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets and AED 18,800 thousand as goodwill.

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which goodwill is monitored for internal management purposes, which is not higher than the Bank's business segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

Cash generating unit (CGU)	AED'000
Credit cards	10,784
Loans	5,099
Overdrafts	94
Wealth management business	2,823
Total goodwill	**18,800**

14. Intangible assets (continued)

Other intangible assets

Customer relationships	Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, credit card and wealth management customers were considered separately, given their differing risk profiles, relationships and loyalty. These relationships are expected to generate material recurring income in the form of interest, fees and commission.
Core deposit intangible	The value of core deposit intangible asset arises from the fact that the deposit base of the Bank represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

Impairment assessment of goodwill

No impairment losses on goodwill were recognised during the year ended December 31, 2014 (2013 - AED Nil).

The recoverable amounts for the CGUs have been assessed based on their value in use. Value in use for each unit was determined by discounting the future cash flows expected to be generated from the continuing use of these units. Value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the business plan in 2014. Cash flows were extrapolated using a rate expected to be realized by these businesses. The forecast period is based on the Bank's current perspective with respect to the operation of these units and range from 2-3 years.

- Appropriate discount rates were applied in determining the recoverable amounts for the CGUs. These discount rates were estimated based on capital asset pricing model using data from U.S. bond and UAE capital markets.

The key assumptions described above may change as economic and market conditions change. The Bank estimates that reasonable changes in these assumptions are not expected to cause the recoverable amount of the units to decline below the carrying amount.

15. Due to banks

	2014 AED'000	2013 AED'000
Vostro balances	**578,213**	192,242
Margin deposits	**96,200**	255,097
Time deposits	**3,414,606**	3,843,672
Total due to banks	**4,089,019**	4,291,011

16. Deposits from customers

	2014	2013
	AED'000	AED'000
Time deposits	**57,075,373**	65,550,746
Current account deposits	**46,823,595**	37,131,506
Savings deposits	**8,895,672**	6,951,691
Murabaha deposits	**12,114,262**	4,974,515
Long term government deposits (Note 41.5)	**425,898**	436,008
Margin deposits	**676,427**	383,242
Total deposits from customers	**126,011,227**	115,427,708

For Islamic deposits (excluding Murabaha deposits) included in the above table, refer to Note 22.

The Bank hedges certain foreign currency time deposits for foreign currency and floating interest rate risks using foreign exchange and interest rate swaps and designates these as cash flow hedges. The net negative fair value of these swaps at December 31, 2014 was AED 47,920 thousand (December 31, 2013 – net positive fair value of AED 59,578 thousand).

17. Euro commercial paper

The details of euro commercial paper (ECP) issuances under Bank's ECP programme are as follows:

	2014	2013
Currency	**AED'000**	AED'000
Swiss Franc (CHF)	**619,295**	618,385
Euro (EUR)	**1,082,659**	1,568,178
GB Pound (GBP)	**1,441,410**	1,329,692
US Dollar (USD)	**3,231,920**	2,424,180
Total euro commercial paper	**6,375,284**	5,940,435

The Bank hedges certain ECP for foreign currency exchange risk through foreign exchange swap contracts and designates these instruments as cash flow hedges. The net negative fair value of these hedge contracts as at December 31, 2014 was AED 166,883 thousand (December 31, 2013 - net positive fair value of AED 77,202 thousand).

ECP are issued at a discount and the discount rate ranges between 0.08% to 0.77% (December 31, 2013 - 0.12% to 1.03%).

For maturity analysis of ECP borrowings, refer to Note 43.

18. Borrowings

The details of borrowings as at December 31, 2014 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	-	-	839,792	-	839,792
	Chinese renminbi (CNH)	-	173,580	-	-	173,580
	Euro (EUR)	-	-	-	55,463	55,463
	Malaysian ringgit (MYR)	871,058	847,028	-	-	1,718,086
	Swiss franc (CHF)	575,705	388,677	-	-	964,382
	Turkish lira (TRY)	-	94,003	-	-	94,003
	UAE dirham (AED)	-	500,000	-	-	500,000
	Japanese yen (JPY)	-	200,609	54,254	-	254,863
	US dollar (USD)	-	1,889,547	7,681,016	1,622,610	11,193,173
		1,446,763	4,093,444	8,575,062	1,678,073	15,793,342
Islamic sukuk notes	US dollar (USD)	-	1,832,850	-	-	1,832,850
Bilateral loans – floating rate	US dollar (USD)	1,469,200	1,831,011	-	-	3,300,211
Subordinated notes – floating rate	US dollar (USD)	1,058,855	-	-	-	1,058,855
– fixed rate	US dollar (USD)	-	-	-	3,819,331	3,819,331
	Swiss franc (CHF)	-	-	-	380,130	380,130
Borrowings through repurchase agreements	US dollar (USD)	4,589,111	-	-	-	4,589,111
		8,563,929	7,757,305	8,575,062	5,877,534	30,773,830
Fair value adjustment on borrowings hedged						(453,709)
						30,320,121

Included in borrowings is AED 19,425,136 thousand which have been hedged using interest rate and cross currency swaps. These swaps are designated as either fair value or cash flow hedges. The net negative fair value of these swaps as at December 31, 2014 was AED 484,870 thousand.

18. Borrowings (continued)

The details of borrowings as at December 31, 2013 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Chinese renminbi (CNH)	-	-	173,580	-	173,580
	Malaysian ringgit (MYR)	-	871,027	847,028	-	1,718,055
	Swiss franc (CHF)	-	575,705	388,677	-	964,382
	Turkish lira (TRY)	-	94,003	-	-	94,003
	UAE dirham (AED)	-	-	500,000	-	500,000
	Japanese yen (JPY)	-	92,046	-	-	92,046
	US dollar (USD)	4,218,641	-	4,627,500	624,410	9,470,551
		4,218,641	1,632,781	6,536,785	624,410	13,012,617
Islamic sukuk notes	US dollar (USD)	-	1,831,435	-	-	1,831,435
Bilateral loans – floating rate	US dollar (USD)	1,652,261	-	-	-	1,652,261
Subordinated notes – floating rate	US dollar (USD)	-	1,058,152	-	-	1,058,152
– fixed rate	US dollar (USD)	-	-	-	3,816,027	3,816,027
	Swiss franc (CHF)	-	-	-	380,130	380,130
Borrowings through repurchase agreements	US dollar (USD)	2,274,631	-	-	-	2,274,631
Certificate of deposits (CDs)	Euro (EUR)	50,587	-	-	-	50,587
		8,196,120	4,522,368	6,536,785	4,820,567	24,075,840
Fair value adjustment on borrowings hedged						(290,272)
						23,785,568

Included in borrowings is AED 17,567,911 thousand which have been hedged using interest rate, foreign exchange and cross currency swaps. These swaps are designated as either fair value or cash flow hedges. The net negative fair value of these swaps as at December 31, 2013 was AED 268,993 thousand.

18. Borrowings (continued)

Global medium term notes

Interest on Global Medium Term Notes is payable quarterly, semi annually and annually in arrears and the contractual coupon rates as at December 31, 2014 are as follows:

Currency	Within 1 year	1-3 years	3-5 years	Over 5 years
AUD	-	-	Fixed rate of 4.75% p.a.	-
CNH	-	Fixed rate of 3.7% p.a. to 4.125% p.a.	-	-
EUR	-	-	-	Quarterly coupons with 59 basis points over EURIBOR
MYR	Fixed rate of 5.2% p.a.	Fixed rate of 4.30% p.a. to 5.35% p.a.	-	-
CHF	Fixed rate of 3.01% p.a.	Quarterly coupons with 110 basis points over CHF LIBOR	-	-
TRY	-	Fixed rate of 12.75% p.a.	-	-
AED	-	Fixed rate of 6.00% p.a.	-	-
JPY	-	Fixed rate of 0.41% p.a. and 0.81% p.a.	Fixed rate of 0.68% p.a.	-
USD(*)	-	Quarterly coupons with 108 to 130 basis points over LIBOR	Fixed rate between 2.50% p.a. and 3% p.a.	Fixed rate of 4.70% p.a. to 5.12% p.a. and quarterly coupons with 73 basis points over LIBOR

(*) include AED 668,862 thousand 30 year accreting notes with yield ranging from 4.8% to 5.12% and are callable at the end of every 5th year from issue date.

Sukuk financing notes

The Sukuk carries an expected profit rate of 4.07% per annum payable semi annually (Note 22).

Bilateral loans

Monthly coupons with 60 to 85 basis points over LIBOR.

Subordinated notes:

Subordinated floating rate notes

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 110 basis points over 3 months LIBOR. The subordinated floating rate notes qualify as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter are amortised at the rate of 20% per annum until 2016 for capital adequacy calculation (Note 50). This has been approved by the Central Bank of the UAE. These notes are classified within 1 year bucket as these are callable at the option of the issuer and the option has been exercised in 2015.

18. Borrowings (continued)

Subordinated notes (continued):

Subordinated fixed rate notes

Interest on the subordinated fixed rate notes is payable half yearly in arrears and the contractual coupon rates as at December 31, 2014 are as follows:

Currency	Over 5 years
USD	Fixed rate 3.125% p.a. to 4.5% p.a.
CHF	Fixed rate 1.885% p.a.

The subordinated fixed rate notes qualify as Tier 2 subordinated loan capital for the first 5 year period till 2018 and thereafter are amortised at the rate of 20% per annum until 2023 for capital adequacy calculation (Note 50). This has been approved by the Central Bank of the UAE. Subordinated notes of AED 1,477,464 thousand mature in 2023 but are callable after 5 years from the issuance date at the option of the Bank.

Borrowings through repurchase agreements

Fixed rate ranging from 0.33% p.a. to 0.75 % p.a.

19. Other liabilities

	2014 **AED'000**	2013 AED'000
Interest payable	**368,254**	398,931
Recognised liability for defined benefit obligations	**334,872**	256,102
Accounts payable and other creditors	**248,441**	189,724
Clearing payables	**2,288**	131
Deferred income	**566,150**	445,561
Acceptances (Note 12)	**2,906,420**	2,140,725
Others	**1,378,487**	1,479,743
Total other liabilities	**5,804,912**	4,910,917

Defined benefit obligations

The Bank provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at December 31, 2014 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

The movement in defined benefit obligations is as follows:

	2014 **AED'000**	2013 AED'000
Opening balance	**256,102**	213,631
Net charge during the year	**69,935**	57,214
Actuarial losses on defined benefit liability	**25,887**	-
Benefits paid	**(17,052)**	(14,743)
Closing balance	**334,872**	256,102

19. Other liabilities (continued)

Defined benefit contribution

The Bank also pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund in respect of its UAE and GCC National employees treated as defined contribution plans. The charge for the year in respect of these contributions is AED 26,611 thousand (2013 - AED 22,746 thousand). As at December 31, 2014, pension payable of AED 5,023 thousand has been classified under other liabilities - others (December 31, 2013 – AED 4,106 thousand).

20. Share capital

	Authorised	Issued and fully paid	
		2014	2013
	AED'000	**AED'000**	AED'000
Ordinary shares of AED 1 each	**5,595,597**	**5,595,597**	5,595,597

As at December 31, 2014, Abu Dhabi Investment Council held 58.083% (December 31, 2013 - 58.083%) of the Bank's issued and fully paid up share capital.

Treasury shares

During the year, the Bank bought back from certain shareholders 2,011,108 (2013 – 392,741,711) ordinary shares at a total cash consideration of AED 11,691 thousand – these shares are held as treasury shares as at December 31, 2014 (Note 21) and are expected to be cancelled eventually. This buyback programme of up to 10% of the Bank's shares was approved by the Securities & Commodities Authority, Central Bank of the UAE and the Bank's shareholders. The approval has been extended until February 3, 2015.

Dividends

For the year ended December 31, 2014, the Board of Directors have proposed to pay cash dividends of AED 2,080,338 thousand, being AED 0.40 dividends per share and representing 40% of the paid up capital net of shares bought back (December 31, 2013 - AED 1,560,857 thousand, being AED 0.30 dividends per share and representing 30% of the paid up capital net of shares bought back). This is subject to the approval of the shareholders in the Annual General Meeting.

21. Other reserves, net of treasury shares

Reserves movement for the year ended December 31, 2014:

	Treasury shares AED'000	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Hedge reserve AED'000	Cumulative changes in fair values AED'000	Total AED'000
Balance at January 1, 2014	**(1,818,969)**	**(57,438)**	**2,287,181**	**2,242,394**	**2,000,000**	**150,000**	**(59,686)**	**40,800**	**351,158**	**5,135,440**
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	**(3,699)**	-	-	**(3,699)**
Fair value changes on cash flow hedges	-	-	-	-	-	-	-	**(52,083)**	-	**(52,083)**
Fair value changes on available-for-sale investments	-	-	-	-	-	-	-	-	**(99,466)**	**(99,466)**
Total other comprehensive loss for the year	-	-	-	-	-	-	**(3,699)**	**(52,083)**	**(99,466)**	**(155,248)**
Shares purchased	-	**(31,459)**	-	-	-	-	-	-	-	**(31,459)**
Fair value and other adjustments	-	**(6,511)**	-	-	-	-	-	-	-	**(6,511)**
Shares – vested portion (Note 23)	-	**29,309**	-	-	-	-	-	-	-	**29,309**
Share buyback (Note 20)	**(11,691)**	-	-	-	-	-	-	-	-	**(11,691)**
Net movement in treasury shares on disposal of fund subsidiaries (Note 51)	**22,012**	-	-	-	-	-	-	-	-	**22,012**
Transfer from retained earnings (Note 50)	-	-	**404,973**	**404,973**	-	-	-	-	-	**809,946**
Balance at December 31, 2014	**(1,808,648)**	**(66,099)**	**2,692,154**	**2,647,367**	**2,000,000**	**150,000**	**(63,385)**	**(11,283)**	**251,692**	**5,791,798**
Balance at January 1, 2013	(30,937)	(96,256)	1,950,650	1,905,863	2,000,000	150,000	(34,333)	26,756	416,848	6,288,591
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(25,353)	-	-	(25,353)
Fair value changes on cash flow hedges	-	-	-	-	-	-	-	14,044	-	14,044
Fair value changes on available-for-sale investments	-	-	-	-	-	-	-	-	(65,690)	(65,690)
Total other comprehensive (loss)/profit for the year	-	-	-	-	-	-	(25,353)	14,044	(65,690)	(76,999)
Shares granted	-	(630)	-	-	-	-	-	-	-	(630)
Shares – vested portion (Note 23)	-	39,448	-	-	-	-	-	-	-	39,448
Share buyback (Note 20)	(1,796,957)	-	-	-	-	-	-	-	-	(1,796,957)
Net movement in treasury shares held by fund subsidiaries	8,925	-	-	-	-	-	-	-	-	8,925
Transfer from retained earnings (Note 50)	-	-	336,531	336,531	-	-	-	-	-	673,062
Balance at December 31, 2013	(1,818,969)	(57,438)	2,287,181	2,242,394	2,000,000	150,000	(59,686)	40,800	351,158	5,135,440

For more information on reserves refer Note 50.

22. Islamic financing

Islamic financing assets

	2014 AED'000	2013 AED'000
Murabaha	**2,299,930**	1,038,429
Ijara financing	**4,170,654**	5,594,710
Mudaraba	**138,534**	463,049
Salam	**4,420,019**	3,476,441
Others	**126,776**	93,998
Gross Islamic financing assets	**11,155,913**	10,666,627
Less: Allowance for impairment	**(143,219)**	(102,384)
Net Islamic financing assets	**11,012,694**	10,564,243

Gross Ijara and related present value of the minimum Ijara payments

	2014 AED'000	2013 AED'000
Less than one year	**539,238**	1,045,887
Between one year and five years	**2,323,031**	3,412,029
More than five years	**2,839,809**	2,669,126
Gross Ijara	**5,702,078**	7,127,042
Less: Deferred income	**(1,531,424)**	(1,532,332)
Net Ijara	**4,170,654**	5,594,710
Net present value		
Less than one year	**291,323**	778,304
Between one year and five years	**1,608,619**	2,719,904
More than five years	**2,270,712**	2,096,502
Total net present value	**4,170,654**	5,594,710

Income from Islamic financing

	2014 AED'000	2013 AED'000
Murabaha	**69,744**	54,354
Ijara financing	**219,694**	254,502
Mudaraba	**13,753**	20,999
Salam	**308,424**	263,573
Others	**5,818**	3,390
Total income from Islamic financing	**617,433**	596,818

Islamic deposits

	2014 AED'000	2013 AED'000
Current account deposits	**2,543,875**	2,139,789
Margin deposits	**13,281**	9,247
Mudaraba savings deposits	**4,198,219**	3,270,613
Mudaraba term deposits	**1,374,575**	1,528,311
Wakala deposits	**1,249,479**	1,224,052
Total Islamic deposits	**9,379,429**	8,172,012

Islamic profit distribution

	2014 AED'000	2013 AED'000
Mudaraba savings and term deposits	**44,042**	47,740
Wakala deposits	**14,780**	34,018
Sukuk	**53,274**	54,230
Total Islamic profit distribution	**112,096**	135,988

22. Islamic financing (continued)

In November 2011, ADCB through its subsidiary ADCB Islamic Finance (Cayman) Limited (Sukuk company) issued a Shari'ah compliant financing arrangement - Sukuk amounting to USD 500,000 thousand (AED 1,836,500 thousand). The Sukuk carries an expected profit rate of 4.07% per annum payable semi annually and is due to mature in November 2016. The Sukuk is listed on the London Stock Exchange.

23. Employees' incentive plan shares, net

The Bank operates an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Bank's Nomination, Compensation and HR Committee determines and approves the shares to be granted to employees based on the Bank's key performance indicators.

For the year ended December 31, 2014, the Bank had three incentive plans in force as described below:

	January 1, 2014	January 1, 2014	January 1, 2013
Number of shares granted	1,665,000	3,551,883	6,738,937
Fair value of the granted shares at the grant date in AED thousand	10,823	23,087	20,284
Vesting date	December 31, 2017	December 31, 2016	December 31, 2015

Vesting conditions – Three/four years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement, termination or achieving the budgeted performance).

The movement of plan shares is as follows:

	2014	2013
Opening balance	**9,055,462**	41,080,821
Shares granted during the year	**5,216,883**	6,738,937
Exercised during the year	**(7,852,213)**	(38,287,554)
Forfeited during the year	**(332,975)**	(476,742)
Closing balance	**6,087,157**	9,055,462
Amount of "Plan" cost recognised in the consolidated statement of income (AED '000)	**29,309**	39,448

Total number of plan shares forfeited and remained un-allotted as at December 31, 2014 were 1,505,950 shares (December 31, 2013 – 6,389,858 shares). The Bank's Nomination, Compensation and HR Committee's intention is to include these shares in the next incentive plan scheme. Further, 4,475,013 shares have been purchased as at December 31, 2014 for future plan.

24. Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes").

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum payable semi-annually until February 2014, and bear a floating interest rate of 6 month EIBOR plus 2.3% per annum thereafter. However the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

24. Capital notes (continued)

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

25. Interest income

	2014 **AED'000**	2013 AED'000
Loans and advances to banks	**205,025**	172,627
Loans and advances to customers	**5,655,249**	5,873,912
Investment securities	**507,681**	473,418
Total interest income	**6,367,955**	6,519,957

26. Interest expense

	2014 **AED'000**	2013 AED'000
Deposits from banks	**7,595**	20,943
Deposits from customers and euro commercial paper	**795,292**	967,686
Borrowings	**485,896**	562,976
Total interest expense	**1,288,783**	1,551,605

27. Net fees and commission income

	2014 **AED'000**	2013 AED'000
Fees and commission income		
Retail banking fees	**858,126**	747,303
Corporate banking fees	**502,584**	389,061
Brokerage fees	**40,328**	15,528
Fees from trust and other fiduciary activities	**119,792**	99,370
Other fees	**47,942**	37,078
Total fees and commission income	**1,568,772**	1,288,340
Fees and commission expenses	**(325,824)**	(295,804)
Net fees and commission income	**1,242,948**	992,536

28. Net trading income

	2014 **AED'000**	2013 AED'000
Net gains on dealing in derivatives	**23,958**	45,843
Net gains from dealing in foreign currencies	**284,959**	184,268
Net gains from trading securities	**98,071**	307,282
Net trading income	**406,988**	537,393

29. Other operating income

	2014 **AED'000**	2013 AED'000
Gains arising from retirement of hedges	**-**	100,284
Net gains from available-for-sale investments	**22,201**	32,911
Property management income	**138,791**	127,284
Rental income	**65,971**	30,477
Income from retirement of long term debt	**-**	21,669
Dividend income	**26,513**	36,354
Others	**19,147**	11,529
Total other operating income	**272,623**	360,508

30. Operating expenses

	2014 AED'000	2013 AED'000
Staff expenses	**1,464,359**	1,353,694
Depreciation (Note 13)	**132,008**	127,222
Amortisation of intangible assets (Note 14)	**25,990**	30,431
Others	**940,703**	846,839
Total operating expenses	**2,563,060**	2,358,186

31. Impairment allowances

	2014 AED'000	2013 AED'000
Impairment allowance on loans and advances, net (Note 41.6)	**811,199**	1,366,156
Net impairment recoveries on available-for-sale investments	**(48,952)**	(31,858)
Total impairment allowances	**762,247**	1,334,298

32. Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan and treasury shares arising on consolidation of fund subsidiaries.

	2014 AED'000	2013 AED'000
Net profit for the year attributable to the equity holders of the Bank	**4,049,731**	3,365,309
Less: Coupon paid on capital notes	**(186,393)**	(240,000)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**3,863,338**	3,125,309
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	**5,595,597**	5,595,597
Less: Weighted average number of treasury shares arising on buy back	**(392,797)**	(219,093)
Less: Weighted average number of treasury shares arising on consolidation of funds	**(1,849)**	(7,916)
Less: Weighted average number of shares resulting from Employees' incentive plan shares	**(14,030)**	(27,256)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**5,186,921**	5,341,332
Add: Weighted average number of treasury shares arising on consolidation of funds	**1,849**	7,916
Add: Weighted average number of shares resulting from Employees' incentive plan shares	**14,030**	27,256
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**5,202,800**	5,376,504
Basic earnings per share (AED) (a)/(b)	**0.74**	0.59
Diluted earnings per share (AED) (a)/(c)	**0.74**	0.58

33. Operating lease

Bank as lessee

Leasing arrangements

Operating leases relates mainly to leases of branch premises and ATMs of the Bank with lease terms between 1 to 3 years. The Bank does not have an option to purchase the leased premises at the expiry of the lease periods.

	2014 AED'000	2013 AED'000
Payments recognised as an expense		
Minimum lease payments	**64,080**	60,809
Non-cancellable operating lease commitments		
Not later than one year	**54,051**	47,624
Later than one year but not later than 5 years	**38,151**	41,830
Total non-cancellable operating lease commitments	**92,202**	89,454

Bank as lessor

Operating leases relate to the investment properties owned by the Bank with lease terms of 1 year, with an option to extend the lease term. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Rental incomes earned by the Bank from its investment properties and direct operating expenses arising on the investment properties for the year are set out in Note 11.

	2014 AED'000	2013 AED'000
Non-cancellable operating lease receivables:		
Not later than one year	**25,943**	28,216
Later than one year	**43,952**	3,750

34. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2014 AED'000	2013 AED'000
Cash and balances with central banks	**15,092,192**	9,961,206
Deposits and balances due from banks	**16,019,461**	11,344,700
Due to banks	**(4,089,019)**	(4,291,011)
	27,022,634	17,014,895
Less: Cash and balances with central banks and deposits and balances due from banks – with original maturity of more than 3 months	**(12,095,955)**	(7,245,757)
Add: Due to banks – with original maturity of more than 3 months	**93,827**	28,803
Total cash and cash equivalents	**15,020,506**	9,797,941

35. Related party transactions

The Bank enters into transactions with parent and its related entities, associate, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of ADCB, being the directors, chief executive officer and his direct reports.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Parent and ultimate controlling party

Abu Dhabi Investment Council holds 58.083% (December 31, 2013 - 58.083%) of the Bank's issued and fully paid up share capital (Note 20). Abu Dhabi Investment Council was established by the Government of Abu Dhabi pursuant to law No. 16 of 2006 and so the ultimate controlling party is the Government of Abu Dhabi.

Related party balances and transactions included in the consolidated statement of financial position and consolidated income statement are as follows:

December 31, 2014	Ultimate controlling party and its related parties AED'000	Directors and its related parties AED'000	Key managers AED'000	Associate AED'000	Total AED'000
Balances:					
Deposits and balances due from banks	**3,885,550**	**-**	**-**	**-**	**3,885,550**
Trading securities	**37,393**	**-**	**-**	**-**	**37,393**
Derivative financial instruments - assets	**1,699,305**	**-**	**-**	**-**	**1,699,305**
Investment securities	**3,537,875**	**-**	**-**	**-**	**3,537,875**
Loans & advances, net	**18,175,112**	**160,825**	**35,335**	**397,644**	**18,768,916**
Other assets	**481,349**	**1,413**	**191**	**104**	**483,057**
Derivative financial instruments – liabilities	**896,649**	**-**	**-**	**-**	**896,649**
Deposits from customers	**25,118,497**	**121,837**	**35,249**	**37,106**	**25,312,689**
Other liabilities	**23,976**	**540**	**-**	**-**	**24,516**
Capital notes	**4,000,000**	**-**	**-**	**-**	**4,000,000**
Commitments and contingent liabilities	**6,895,317**	**121,637**	**300**	**919**	**7,018,173**
Transactions:					
Interest, fees and other income	**397,223**	**9,091**	**1,192**	**28,540**	**436,046**
Interest expense	**269,554**	**90**	**111**	**-**	**269,755**
Derivative income	**528,562**	**-**	**-**	**-**	**528,562**
Coupon paid on Capital notes	**186,393**	**-**	**-**	**-**	**186,393**
December 31, 2013					
Balances:					
Deposits and balances due from banks	751,759	-	-	-	751,759
Trading securities	22,967	-	-	-	22,967
Derivative financial instruments - assets	1,241,534	2,564	-	-	1,244,098
Investment securities	5,177,907	-	-	-	5,177,907
Loans & advances, net	21,047,813	388,792	39,533	593,498	22,069,636
Other assets	256,107	6,511	25	80	262,723
Due to banks	370,380	-	-	-	370,380
Derivative financial instruments - liabilities	340,943	-	-	-	340,943
Deposits from customers	38,434,766	138,424	23,447	3,709	38,600,346
Other liabilities	188,655	678	-	-	189,333
Capital notes	4,000,000	-	-	-	4,000,000
Commitments and contingent liabilities	1,780,488	84,970	2,681	919	1,869,058
Transactions:					
Interest, fees and other income	901,526	20,817	1,267	30,858	954,468
Interest expense	316,948	227	156	-	317,331
Derivative (expense)/income	(312,219)	753	-	-	(311,466)
Interest expense on Tier 2 loan	91,958	-	-	-	91,958
Coupon paid on Capital notes	240,000	-	-	-	240,000

35. Related party transactions (continued)

As at December 31, 2014, Funds under management held 5,469,873 shares (December 31, 2013: 7,372,506 shares) of the Bank. During the year, the Bank paid dividend of AED 2,270 thousand (2013: AED 2,015 thousand) on these shares.

Remuneration of key management employees and Board of Directors fees and expenses during the year are as follows:

	2014 AED'000	2013 AED'000
Short term benefits	**25,995**	24,956
Termination benefits	**2,657**	2,100
Variable pay benefits	**30,450**	25,262
	59,102	52,318
Board of Directors fees and expenses	**7,556**	12,481

In addition to the above, the key management personnel were granted long term deferred compensation including share based payments of AED 25,425 thousand (2013 - AED 22,238 thousand).

36. Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at December 31:

	2014 AED'000	2013 AED'000
Letters of credit	**6,411,361**	8,677,520
Guarantees	**17,418,872**	14,249,313
Commitments to extend credit – Revocable (*)	**10,809,547**	8,293,471
Commitments to extend credit – Irrevocable	**12,687,831**	3,262,963
Total commitments on behalf of customers	**47,327,611**	34,483,267
Commitments for future capital expenditure	**137,736**	189,007
Commitments to invest in investment securities	**71,750**	132,185
Total commitments and contingent liabilities	**47,537,097**	34,804,459

(*) includes AED 6,276,388 thousand (December 31, 2013: AED 5,209,250 thousand) for undrawn credit card limits.

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would be exposed to market risk if issued or extended at a fixed rate of interest. However these contracts are primarily made at floating rates.

Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

37. Operating segments

The Bank has four reportable segments as described below. These segments offer different products and services and are managed separately based on the Bank's management and internal reporting structure. For each of the strategic divisions, the Bank's Performance Management Committee reviews internal management reports on a monthly basis.

The following summary describes the operations in each of the Bank's reportable segments:

Consumer banking - comprises of retail, wealth management and Islamic financing. It includes loans, deposits and other transactions and balances with retail customers and corporate and private accounts of high net worth individuals and funds management activities.

Wholesale banking - comprises of business banking, cash management, trade finance, corporate finance, small and medium enterprise financing, investment banking, Indian operations, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.

Investments and treasury - comprises of central treasury operations, management of the Bank's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Bank's funding and centralized risk management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.

Property management - comprises of real estate management and engineering service operations of subsidiaries - Abu Dhabi Commercial Properties LLC, Abu Dhabi Commercial Engineering Services LLC, and rental income of ADCB.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

The following is an analysis of the Bank's revenue and results by operating segment for the year ended:

2014	Consumer banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest and Islamic financing income	2,296,639	1,390,207	1,788,902	108,761	5,584,509
Non-interest income	921,817	596,609	181,989	244,474	1,944,889
Operating expenses	(1,577,370)	(685,952)	(198,366)	(101,372)	(2,563,060)
Operating profit before impairment allowances	1,641,086	1,300,864	1,772,525	251,863	4,966,338
Impairment (allowances)/recoveries	(663,024)	(148,175)	48,952	-	(762,247)
Profit before taxation	978,062	1,152,689	1,821,477	251,863	4,204,091
Overseas income tax expense	-	(2,707)	-	-	(2,707)
Net profit for the year	978,062	1,149,982	1,821,477	251,863	4,201,384
Capital expenditure					144,965
December 31, 2014					
Segment assets	63,216,688	83,717,761	56,460,659	624,355	204,019,463
Segment liabilities	37,316,795	51,210,978	89,055,962	16,895	177,600,630

37. Operating segments (continued)

2013	**Consumer banking AED'000**	**Wholesale banking AED'000**	**Investments and treasury AED'000**	**Property management AED'000**	**Total AED'000**
Net interest and Islamic financing income	2,138,406	1,464,898	1,705,380	120,498	5,429,182
Non-interest income	914,341	459,774	347,800	168,522	1,890,437
Operating expenses	(1,420,232)	(632,984)	(205,489)	(99,481)	(2,358,186)
Operating profit before impairment allowances	1,632,515	1,291,688	1,847,691	189,539	4,961,433
Impairment (allowances)/recoveries	(1,062,858)	(291,508)	20,068	-	(1,334,298)
Profit before taxation	569,657	1,000,180	1,867,759	189,539	3,627,135
Overseas income tax expense	-	(7,491)	-	-	(7,491)
Net profit for the year	569,657	992,689	1,867,759	189,539	3,619,644
Capital expenditure					99,846
December 31, 2013					
Segment assets	61,382,901	76,113,146	45,078,609	567,880	183,142,536
Segment liabilities	32,165,627	43,746,149	82,370,825	38,625	158,321,226

Other disclosures

The following is the analysis of the total operating income of each segment between income from external parties and inter-segment.

	External		**Inter-segment**	
	2014 AED'000	2013 AED'000	**2014 AED'000**	2013 AED'000
Consumer banking	**4,333,210**	4,292,674	**(1,114,754)**	(1,239,927)
Wholesale banking	**3,029,740**	3,019,561	**(1,042,924)**	(1,094,889)
Investments and treasury	**(78,026)**	(161,138)	**2,048,917**	2,214,318
Property management	**244,474**	168,522	**108,761**	120,498
Total	**7,529,398**	7,319,619	**-**	-

Geographical information

The Bank operates in two principal geographic areas i.e. Domestic and International. The United Arab Emirates is designated as domestic area which represents the operations of the Bank that originates from the UAE branches and subsidiaries; and international area represents the operations of the Bank that originates from its branches in India, Jersey and through its subsidiaries outside UAE. The Bank's operations and information about its segment non-current financial assets by geographical location are detailed as follows:

	Domestic		**International**	
	2014 AED'000	2013 AED'000	**2014 AED'000**	2013 AED'000
Income				
Net interest and Islamic financing income	**5,549,268**	5,400,539	**35,241**	28,643
Non-interest income	**1,765,743**	1,887,635	**179,146**	2,802
Non-current assets				
Investment properties	**615,778**	560,690	**-**	-
Property and equipment, net	**801,746**	801,295	**4,442**	4,027
Intangible assets	**35,705**	61,695	**-**	-

38. Financial instruments

Categories of financial instruments

The following tables analyse the Bank's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

December 31, 2014	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Amortised cost AED'000	Total AED'000
Assets					
Cash and balances with central banks	-	-	-	15,092,192	15,092,192
Deposits and balances due from banks	-	-	-	16,019,461	16,019,461
Trading securities	199,599	-	-	-	199,599
Derivative financial instruments	4,045,205	243,301	-	-	4,288,506
Investment securities	-	-	21,651,838	-	21,651,838
Loans and advances, net	-	-	-	140,562,498	140,562,498
Other assets	-	-	-	4,486,014	4,486,014
Total financial assets	4,244,804	243,301	21,651,838	176,160,165	202,300,108
Liabilities					
Due to banks	-	-	-	4,089,019	4,089,019
Derivative financial instruments	4,041,821	958,246	-	-	5,000,067
Deposits from customers	-	-	-	126,011,227	126,011,227
Euro commercial paper	-	-	-	6,375,284	6,375,284
Borrowings	-	-	-	30,320,121	30,320,121
Other liabilities	-	-	-	5,238,762	5,238,762
Total financial liabilities	4,041,821	958,246	-	172,034,413	177,034,480
December 31, 2013					
Assets					
Cash and balances with central banks	-	-	-	9,961,206	9,961,206
Deposits and balances due from banks	-	-	-	11,344,700	11,344,700
Trading securities	884,640	-	-	-	884,640
Derivative financial instruments	3,141,800	474,403	-	-	3,616,203
Investment securities	-	-	20,854,772	-	20,854,772
Loans and advances, net	-	-	-	131,648,670	131,648,670
Other assets	-	-	-	3,365,653	3,365,653
Total financial assets	4,026,440	474,403	20,854,772	156,320,229	181,675,844
Liabilities					
Due to banks	-	-	-	4,291,011	4,291,011
Derivative financial instruments	3,157,645	807,942	-	-	3,965,587
Deposits from customers	-	-	-	115,427,708	115,427,708
Euro commercial paper	-	-	-	5,940,435	5,940,435
Borrowings	-	-	-	23,785,568	23,785,568
Other liabilities	-	-	-	4,465,356	4,465,356
Total financial liabilities	3,157,645	807,942	-	153,910,078	157,875,665

39. Fair value hierarchy

Fair value measurements recognised in the statement of financial position

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

39. Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

Valuation techniques using observable inputs – Level 2

Financial instruments and investment properties classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such certain OTC derivatives, commodity derivatives, foreign exchange spot and forward contracts.

These instruments are valued using the inputs observable in an active market. Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for optional derivatives.

Level 2 investment properties are buildings given on rent. Refer Note 11 in respect of the valuation techniques used.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This category mainly includes private equity instruments and private funds. The carrying values of these investments are adjusted as follows:

a) Private equity instruments – using the latest available net book value; and
b) Private funds – based on the net asset value provided by the fund manager.

Other assets and liabilities not measured at fair value

The majority of the Bank's assets and liabilities measured at amortised cost, including loans and advances and deposits from customers, are Level 3 assets and liabilities as there is no active market for such assets and liabilities. The Bank considers these to have a fair value approximately equivalent to their net carrying value based on discounted cash flow calculations performed for a sample of loans, the majority of which carry variable interest rates, and given the relatively short tenor of most deposits from customers.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

39. Fair value hierarchy (continued)

The table below analyses recurring fair value measurements for assets and liabilities.

		Level 1	Level 2	Level 3	
December 31, 2014	**Notes**	**Quoted market prices AED'000**	**Observable inputs AED'000**	**Significant unobservable inputs AED'000**	**Total AED'000**
Assets at fair value					
Trading securities	**7**	**199,599**	**-**	**-**	**199,599**
Derivative financial instruments	**8**	**2,536**	**4,285,970**	**-**	**4,288,506**
Investment securities	**9**				
- Quoted		**19,384,244**	**935,205**	**-**	**20,319,449**
- Unquoted		**-**	**954,173**	**378,216**	**1,332,389**
Investment properties	**11**	**-**	**615,778**	**-**	**615,778**
Total assets at fair value		**19,586,379**	**6,791,126**	**378,216**	**26,755,721**
Liabilities at fair value					
Derivative financial instruments	**8**	**146**	**4,999,921**	**-**	**5,000,067**
Total liabilities at fair value		**146**	**4,999,921**	**-**	**5,000,067**
December 31, 2013					
Assets at fair value					
Trading securities	7	884,640	-	-	884,640
Derivative financial instruments	8	1,767	3,614,436	-	3,616,203
Investment securities	9				
- Quoted		20,480,037	-	-	20,480,037
- Unquoted		-	58,147	316,588	374,735
Investment properties	11	-	560,690	-	560,690
Total assets at fair value		21,366,444	4,233,273	316,588	25,916,305
Liabilities at fair value					
Derivative financial instruments	8	-	3,965,587	-	3,965,587
Total liabilities at fair value		-	3,965,587	-	3,965,587

The Bank's OTC derivatives in the Trading Book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 available-for-sale investments is as follows:

	2014 AED'000	2013 AED'000
Opening balance	**316,588**	278,436
Purchases, net	**60,494**	49,217
Disposals including capital refunds	**(24,950)**	(9,726)
Adjustment through comprehensive income	**26,845**	(2,502)
Transfer (from)/to	**(761)**	1,163
Closing balance	**378,216**	316,588

Net gain of AED 20,429 thousand (2013: net loss of AED 1,903 thousand) on disposal of Level 3 investments were included under other operating income in the consolidated income statement (Note 29).

There were no significant transfers between Level 1 and Level 2 from the year 2013 to 2014.

There is no change in valuation techniques during the year.

Unconsolidated structured entity:

Level 1 financial instruments include the Bank's investments in Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund (the "Funds"). These Funds were de-consolidated with effect from 31 March, 2014 due to loss of control (Note 51). The total carrying value of investments in these Funds as at December 31, 2014 was AED 165,835 thousand. The Bank has also extended revocable overdraft facilities to these Funds amounting to AED 50,030 thousand, out of which AED 35,632 thousand was utilised and outstanding as at December 31, 2014. The maximum exposure to loss in these Funds is equal to the carrying value of the investments and credit risk carried in the facilities extended.

40. Risk management

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for and ownership of risk within each business unit. Under the Bank's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Bank from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rest with the Board. This is managed through various Board level committees; namely Board Risk & Credit Committee (BRCC) and Board Audit & Compliance Committee (BACC), which ensure that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board Committees.

The Management level committees also actively manage risk particularly the Assets and Liabilities Management Committee; Management Risk & Credit Committee (MRCC) and Management Recoveries Committee. The Risk Management function headed by the Bank's Chief Risk Officer reports independently to the Board Risk and Credit Committee. The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, short-term liquidity, operational and compliance risk.

The Board Audit & Compliance Committee provides assistance to the Board to fulfil its duties to ensure and oversee the Bank's financial statements, independence and performance of the Bank's external and internal auditors, compliance with legal and regulatory requirements and internal policies and internal control over financial reporting.

The Internal Audit Group (IAG) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Bank's risk management, control and governance processes. The IAG reports directly to the BACC. The IAG consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of the Bank's lending portfolio, controls in operational processes and the integrity of the Bank's information systems and databases. The IAG auditors, alongside the compliance department, also ensure that transactions undertaken by the Bank are conducted in compliance with applicable legal and regulatory requirements, and in accordance with the Bank's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

41. Credit risk management

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation.

The Bank's risk function follows the approaches listed below for credit risk management, depending on the type of customer.

Individual account management – These accounts are managed by a relationship manager and a credit manager. This category includes customers of wholesale banking and financial institutions. Risk management is conducted through expert analysis backed up by tools to support decision-making based on internal models of risk assessment.

Portfolio Management – This category generally includes individuals, sole proprietorships and partnerships and certain smaller SME's. Management of these risks is based on internal models of assessment and score card based decisions complemented by internal portfolio analytics.

41. Credit risk management (continued)

The Bank controls credit risk by aggregating and monitoring credit exposures (both direct and indirect exposures) on the loans and advances, investment securities, non-funded exposures and due from banks. The Bank sets transaction limits for specific counterparties and continually assesses the creditworthiness of counterparties. The Bank sets and monitors country, industry, product and tenor risks and uses its own internal rating models for assigning customer ratings which measures the degree of risk of a customer. Each rating corresponds to a certain probability of default. The Bank has various internal rating models for different customer segments.

In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

The Bank wide credit policies and standards are approved by the BRCC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments and are decided based on the macro economic conditions, the risk appetite of the Bank, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Bank's interest in changing operating conditions. In addition to bank wide policies, there are under writing standards set for each portfolio segment.

41.1 Analysis of maximum exposure to credit risk before credit risk mitigants

The following table presents the maximum exposure of credit risk as at December 31, 2014 and 2013 consolidated statement of financial position and off-balance sheet financial instruments, before taking account of any credit risk mitigants and after allowance for impairment and netting where appropriate.

The maximum exposure to credit risk for on consolidated statement of financial position items is their carrying value. For financial guarantees recorded off balance sheet, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the guarantees were to be called upon. For loans and other credit related commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

The analysis of credit risk under this section includes only financial assets subject to credit risk. They exclude other financial assets such as trading portfolio which are exposed to market risk. The nominal value of off-balance sheet credit related instruments is also shown, where appropriate.

Whilst the Bank's maximum exposure to credit risk is the carrying value of the assets or, in the case of off-balance sheet items, the amount guaranteed, committed, or endorsed, in most cases the likely exposure is far less due to collateral held, and other credit risk mitigants and other actions taken to manage the Bank's exposure.

41. Credit risk management (continued)

41.1 Analysis of maximum exposure to credit risk before credit risk mitigants (continued)

	2014			2013		
	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit risk exposure AED'000	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit risk exposure AED'000
Deposits and balances due from banks	**16,019,461**	**-**	**16,019,461**	11,344,700	-	11,344,700
Derivative financial instruments	**4,288,506**	**-**	**4,288,506**	3,616,203	-	3,616,203
Investment securities	**21,651,838**	**71,750**	**21,723,588**	20,854,772	132,185	20,986,957
Loans and advances, net	**140,562,498**	**-**	**140,562,498**	131,648,670	-	131,648,670
Other assets	**4,551,844**	**-**	**4,464,055**	3,404,638	-	3,286,050
Letters of credit	**-**	**6,411,361**	**6,411,361**	-	8,677,520	8,677,520
Guarantees	**-**	**17,418,872**	**17,418,872**	-	14,249,313	14,249,313
Commitments to extend credit - Irrevocable	**-**	**12,687,831**	**12,687,831**	-	3,262,963	3,262,963
Total	**187,074,147**	**36,589,814**	**223,576,172**	170,868,983	26,321,981	197,072,376

41.2 Concentration of credit risk

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the location of the counterparty or customer or the economic activity in which they are engaged.

(a) Credit risk concentration by geographical sector

December 31, 2014	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
Assets								
Deposits and balances due from banks	**7,179,030**	**3,125,209**	**254**	**1,223,719**	**4,187,521**	**272,029**	**31,699**	**16,019,461**
Derivative financial instruments	**2,389,700**	**945**	**-**	**67,324**	**1,810,587**	**98**	**19,852**	**4,288,506**
Investment securities	**9,381,487**	**3,377,627**	**282,309**	**2,527,968**	**2,591,767**	**2,819,635**	**671,045**	**21,651,838**
Loans and advances, net	**126,196,706**	**3,637,006**	**234,954**	**8,144,498**	**1,377,743**	**191,650**	**779,941**	**140,562,498**
Other assets	**3,909,232**	**352,151**	**4,416**	**99,063**	**51,041**	**31,238**	**16,914**	**4,464,055**
Total	**149,056,155**	**10,492,938**	**521,933**	**12,062,572**	**10,018,659**	**3,314,650**	**1,519,451**	**186,986,358**
Commitment and contingent liabilities	**30,044,597**	**1,828,170**	**219**	**2,259,062**	**1,998,724**	**311,217**	**147,825**	**36,589,814**
December 31, 2013								
Assets								
Deposits and balances due from banks	4,614,768	3,993,272	22,504	537,963	1,519,306	608,683	48,204	11,344,700
Derivative financial instruments	1,729,239	650	-	70,142	1,638,806	170,699	6,667	3,616,203
Investment securities	10,805,912	2,620,186	-	879,903	3,200,413	2,951,625	396,733	20,854,772
Loans and advances, net	124,417,670	2,823,841	33,378	2,310,642	1,202,961	391	859,787	131,648,670
Other assets	2,726,100	492,071	111	66,249	-	-	1,519	3,286,050
Total	144,293,689	9,930,020	55,993	3,864,899	7,561,486	3,731,398	1,312,910	170,750,395
Commitment and contingent liabilities	19,244,600	496,576	104,712	3,793,825	1,703,570	291,799	686,899	26,321,981

41. Credit risk management (continued)

41.2 Concentration of credit risk (continued)

(b) Credit risk concentration by economic/industry sector

The economic activity sector composition of the loans and advances portfolio is as follows:

	December 31, 2014			December 31, 2013		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	**208,394**	**-**	**208,394**	215,777	-	215,777
Energy	**1,470,512**	**1,910,712**	**3,381,224**	527,279	183,377	710,656
Trading	**3,142,931**	**332,680**	**3,475,611**	2,172,597	155,286	2,327,883
Real estate investment & hospitality	**48,234,134**	**594,872**	**48,829,006**	51,704,059	733,630	52,437,689
Transport	**1,373,193**	**815,998**	**2,189,191**	558,357	673,627	1,231,984
Personal	**33,951,440**	**269,626**	**34,221,066**	29,901,512	389,073	30,290,585
Government & public sector entities	**30,468,754**	**241,041**	**30,709,795**	31,690,007	560,690	32,250,697
Financial institutions (*)	**10,212,055**	**9,873,561**	**20,085,616**	9,844,961	4,987,911	14,832,872
Manufacturing	**1,466,266**	**1,007,843**	**2,474,109**	944,955	364,810	1,309,765
Services	**1,090,550**	**130,530**	**1,221,080**	1,586,456	352,906	1,939,362
Others	**323,302**	**221,847**	**545,149**	769,479	221,868	991,347
	131,941,531	**15,398,710**	**147,340,241**	129,915,439	8,623,178	138,538,617
Less: Allowance for impairment			**(6,777,743)**			(6,889,947)
Total loans and advances, net			**140,562,498**			131,648,670

(*) includes investment companies

The industry sector composition of other exposures is as follows:

December 31, 2014	**Commercial and business AED'000**	**Personal AED'000**	**Public sector AED'000**	**Government AED'000**	**Banks and financial institutions AED'000**	**Total AED'000**
Assets						
Deposits and balances due from banks	**-**	**-**	**-**	**-**	**16,019,461**	**16,019,461**
Derivative financial instruments	**1,268,933**	**8,186**	**768,675**	**-**	**2,242,712**	**4,288,506**
Investment securities	**704,286**	**-**	**4,796,658**	**5,626,109**	**10,524,785**	**21,651,838**
Other assets	**3,449,752**	**254,976**	**130,058**	**425,053**	**204,216**	**4,464,055**
Total	**5,422,971**	**263,162**	**5,695,391**	**6,051,162**	**28,991,174**	**46,423,860**
Commitment and contingent liabilities	**22,646,752**	**1,025,182**	**5,794,211**	**376,910**	**6,746,759**	**36,589,814**
December 31, 2013						
Assets						
Deposits and balances due from banks	-	-	-	-	11,344,700	11,344,700
Derivative financial instruments	1,540,282	30,353	5,105	19,055	2,021,408	3,616,203
Investment securities	408,417	-	5,977,949	4,457,706	10,010,700	20,854,772
Other assets	1,971,695	236,966	906,504	140,261	30,624	3,286,050
Total	3,920,394	267,319	6,889,558	4,617,022	23,407,432	39,101,725
Commitment and contingent liabilities	13,872,971	1,033,661	3,262,522	482,587	7,670,240	26,321,981

As at reporting date, the 20 largest customer loan exposures constitute 37.04% of the gross loans and advances (December 31, 2013 – 41.44%).

41. Credit risk management (continued)

41.3 Credit risk management overview

Organisational Framework

The risk management structure of the Bank is clearly established with well defined roles and responsiblities as explained in Note 40.

The committees responsible for managing credit risk are Management Risk & Credit Committee and Management Recoveries Committee. ADCB risk management practices and strategies are an integral part of business planning and budgeting process. All risk management areas are centralised under the Credit and Risk Group.

The Board Risk and Credit Committee (BRCC) is responsible for approving high value credits and is responsible for the approval of credit policies and processes in line with growth, risk management and strategic objectives. In addition, the Bank manages the credit exposure by obtaining collaterals where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Bank's credit processes are undertaken by the Internal Audit and Compliance divisions.

41.4 Credit risk measurement and mitigation policies

Loans and advances to customers is the main source of credit risk although the Bank can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Bank's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite, limits and controls, and to monitor the risks and adherence to limits by means of reliable and timely data. The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties (Note 41.5).

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Collateral

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- Cash and marketable securities;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees.

The estimated fair value of collateral and other security enhancements held against loans and advances to customers and banks for the year ended December 31, 2014 was AED 130,582,750 thousand (December 31, 2013 - AED 118,116,744 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential properties and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess on realisation is paid back to the customers and is not available for offset against other loans.

41. Credit risk management (continued)

41.4 Credit risk measurement and mitigation policies (continued)

Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on any single day.

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

41.5 Portfolio monitoring and identifying credit risk

Credit Risk Management is actively involved in identifying and monitoring credit risk on loans. It monitors the portfolio through system generated MIS and periodic reviews giving due consideration to industry/general economic trends, market feed back and media reports.

Within the retail portfolios comprising of homogeneous assets, statistical techniques are deployed to monitor potential weaknesses within a particular portfolio. The approach is consistent with the Bank's policy of raising a specific impairment allowance as soon as objective evidence of impairment is identified. Retail accounts are classified according to specified categories of arrears status (days past due buckets), which reflects the level of contractual payments which are overdue on a loan.

The probability of default increases with the number of contractual payments missed, thus raising the associated impairment requirement. In the event, where a decision is taken to write off a loan, the account is moved to legal recovery function. However, in certain cases, an account may be charged off directly from a performing status, such as in the case of insolvency or death.

In the wholesale banking portfolio, the Bank will more frequently participate in debt restructuring agreements as part of the business support process. Debt restructuring agreements may include actions to facilitate recovery of the principal and interest outstanding and may include rate negotiation, relaxing payment schedules, etc.

41. Credit risk management (continued)

41.5 Portfolio monitoring and identifying credit risk (continued)

Exposure to Credit Risk by days past due

The Bank's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of United Arab Emirates guidelines is as follows:

Risk Category	
Neither past due nor impaired	Up to 30 days past due
Past due but not impaired loans	Between 31 and 90 days past due
Past due and impaired	Over 91 days past due

The classification of loans and advances by days past due are as follows:

	2014	2013
	AED'000	AED'000
Neither past due nor impaired	**140,470,227**	130,819,755
Past due but not impaired	**2,259,015**	1,997,354
Past due and impaired	**4,610,999**	5,721,508
	147,340,241	138,538,617
Less: Allowance for impairment	**(6,777,743)**	(6,889,947)
Loans and advances, net	**140,562,498**	131,648,670

Analysis of the age of past due but not impaired loans as at the end of the reporting period is as follows:

	2014	2013
	AED'000	AED'000
31 – 60 days	**980,353**	1,011,265
61- 90 days	**1,278,662**	986,089
Total past due but not impaired loans	**2,259,015**	1,997,354

Loans and advances include a loan to the Government of Abu Dhabi ("Government") of AED 425,898 thousand (December 31, 2013 – AED 436,008 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in previous years and were indemnified by the Government through a guarantee. The Bank has an equal amount of long term deposit against this loan (Note 16).

Exposure to credit risk by internal risk grades

The Bank uses an internal grading system which employs ten grades that categorise the Bank's wholesale and high net worth (HNW) customers based on various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis etc. Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1-7 are assigned to performing customers or accounts while credit grades 8 – 10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Bank to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. Retail customers or individual borrowers are not assigned a credit rating under this structure. However, retail banking uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades but as factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

41. Credit risk management (continued)

41.5 Portfolio monitoring and identifying credit risk (continued)

Exposure to credit risk by internal risk grades (continued)

The following table represents credit quality of loans and advances, net that are neither past due nor impaired and derivative financial assets as at December 31:

	2014		2013	
	Loans and advances, net AED'000	**Derivative financial assets AED'000**	Loans and advances, net AED'000	Derivative financial assets AED'000
Internal risk grades				
Grades 1 to 4	**39,030,401**	**3,896,924**	30,188,330	3,352,045
Grades 5 to 6	**63,757,473**	**390,479**	67,182,007	262,032
Grade 7	**11,539,533**	**1,103**	11,298,330	1,871
Ungraded – including retail loans	**26,142,820**	**-**	22,151,088	255
	140,470,227	**4,288,506**	130,819,755	3,616,203

External credit ratings of deposits and balances due from banks and investment securities

The table below presents the external credit ratings as at December 31 of the Bank's deposits and balances due from banks, trading and available-for-sale bond securities based on Moody's rating scale. Wherever Moody's ratings are not available comparable Standard & Poor's equivalent ratings scale is used.

	2014			2013		
	Deposits and balances due from banks AED'000	**Trading securities bonds AED'000**	**Available-for-sale bonds AED'000**	Deposits and balances due from banks AED'000	Trading securities bonds AED'000	Available-for-sale bonds AED'000
Ratings						
Aaa to Aa3	**2,099,567**	**14,727**	**6,443,805**	2,667,928	-	6,143,363
A1 to A3	**7,764,609**	**37,394**	**4,183,605**	4,314,815	89,068	4,783,083
Baa1 to Ba3	**5,265,768**	**118,688**	**8,809,473**	1,285,819	29,019	6,900,106
B1 to B3	**772,057**	**-**	**8,900**	692,505	-	-
Ca to Caa3	**-**	**-**	**-**	-	-	32
Unrated	**117,460**	**28,790**	**1,661,180**	2,383,633	18,685	2,711,735
	16,019,461	**199,599**	**21,106,963**	11,344,700	136,772	20,538,319

As at December 31, 2014, unrated available-for-sale bonds include Government bonds of AED 1,155,283 thousand (December 31, 2013 – AED 2,139,168 thousand).

41.6 Identification of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets carried at amortised cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a Bank's asset such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

The Bank considers evidence of impairment for loans and advances and investment securities measured at amortised cost at both at individual and collective level.

41. Credit risk management (continued)

41.6 Identification of impairment (continued)

Individually assessed loans and advances

Impairment losses for individually assessed loans are determined by an evaluation of objective evidence relating to each exposure on a case-by-case basis. This procedure is applied to all classified corporate, commercial, high net worth individual loans, bank loans and advances which are individually significant accounts or are not subject to a portfolio-based-approach. Specific factors considered by management when determining allowance for impairment on individual loans and advances which are significant includes the Bank's aggregate exposure to the customer, viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations, the amount and timing of expected receipts and recoveries, likely dividend available on liquidation or bankruptcy, extent of other creditors' commitments ranking ahead of, or pari passu with the Bank, likelihood of other creditors continuing to support the company, realisable value of security (or other credit mitigants) and likelihood of successful repossession, and likely deduction of any costs involved in recovery of amounts outstanding.

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses but including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate, when it became delinquent under the contract. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line - impairment allowances.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities, regular valuation of the collateral and consideration of its enforceability. Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which may have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogenous groups of loans that are not considered individually significant.

Incurred but not yet identified loss on individual loans

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the reporting date, which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are removed for the purpose of collective impairment and assessed on an individual basis for impairment. The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the reporting date.

In assessing collective impairment, the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

41. Credit risk management (continued)

41.6 Identification of impairment (continued)

Collectively assessed loans and advances (continued)

Incurred but not yet identified loss on individual loans (continued)

The collective impairment allowance is determined after taking into account factors such as historical loss experience in portfolios of similar credit risk characteristics, past restructurings, estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against individual loans and management's judgement based on experience as to whether current economic and credit conditions are such that the actual level of inherent losses at the reporting date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on individual basis when individual loans are written off, at which point they are removed from the group.

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

Retail loans – All unsecured loans falling under similar overdue categories are assumed to carry similar credit risk and an allowance for impairment is taken on a portfolio basis. In cases of secured loans where the Bank possesses collateral (mortgage/auto loans) the realisable value of the collateral is taken into consideration in assessing the allowance for impairment.

Write-off of loans and advances

Loan and advances (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realizing the security have been received.

The movement in individual and collective impairment allowance on loans and advances is as follows:

	2014			2013		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
Opening balance	**4,250,195**	**2,639,752**	**6,889,947**	4,207,137	2,256,583	6,463,720
Charge for the year	**714,991**	**325,560**	**1,040,551**	1,170,603	383,517	1,554,120
Recoveries during the year	**(229,352)**	**-**	**(229,352)**	(187,964)	-	(187,964)
Net charge for the year	**485,639**	**325,560**	**811,199**	982,639	383,517	1,366,156
Discount unwind/others	**(160,011)**	**(44,245)**	**(204,256)**	(144,016)	-	(144,016)
Net amounts written-off	**(718,638)**	**-**	**(718,638)**	(795,407)	-	(795,407)
Currency translation	**(389)**	**(120)**	**(509)**	(158)	(348)	(506)
Closing balance	**3,856,796**	**2,920,947**	**6,777,743**	4,250,195	2,639,752	6,889,947

41. Credit risk management (continued)

41.6 Identification of impairment (continued)

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Bank's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting agreements as explained in Note 41.4.

Off-balance sheet

The Bank applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

42. Interest rate risk framework, measurement and monitoring

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Bank's treasury department, which uses derivative instruments like interest rate swaps and currency swaps to manage the overall interest rate risk arising from the Bank's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Bank's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, borrowings and capital notes fall under this category.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity investments, cash and balances with central banks excluding certificate of deposits and reverse repo.

The off balance sheet gap represents the net notional amounts of the off balance sheet financial instruments, such as interest rate swaps and currency swaps which are used to manage interest rate risk.

The Bank uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by the Asset and Liability Committee (ALCO).

42. Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest rate sensitivity position based on contractual repricing arrangements at December 31, 2014 was as follows. Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing tenor bucket at fair value.

December 31, 2014	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	769,812	1,400,000	1,375,000	-	-	11,547,380	15,092,192
Deposits and balances due from banks	11,347,128	3,344,493	567,972	-	-	759,868	16,019,461
Trading securities	199,599	-	-	-	-	-	199,599
Derivative financial instruments	3,033,279	2,274	1,356	8,071	-	1,243,526	4,288,506
Investment securities	2,238,686	2,173,425	3,259,543	7,059,929	6,375,380	544,875	21,651,838
Loans and advances, net	94,310,980	17,324,887	2,224,771	8,227,431	26,210,607	(7,736,178)	140,562,498
Investment in associate	-	-	-	-	-	195,854	195,854
Investment properties	-	-	-	-	-	615,778	615,778
Other assets	372,776	-	-	-	-	4,179,068	4,551,844
Property and equipment, net	-	-	-	-	-	806,188	806,188
Intangibles assets	-	-	-	-	-	35,705	35,705
Total assets	**112,272,260**	**24,245,079**	**7,428,642**	**15,295,431**	**32,585,987**	**12,192,064**	**204,019,463**
Liabilities and Equity							
Due to banks	3,474,061	36,730	-	-	-	578,228	4,089,019
Derivative financial instruments	3,444,353	11,937	-	8,290	3,002	1,532,485	5,000,067
Deposits from customers	62,252,659	10,626,953	14,549,660	3,662,208	4,194	34,915,553	126,011,227
Euro commercial paper	3,398,994	1,265,598	1,710,692	-	-	-	6,375,284
Borrowings	10,484,548	1,125,369	1,349,044	3,520,601	13,840,559	-	30,320,121
Other liabilities	-	-	-	-	-	5,804,912	5,804,912
Equity	-	-	-	-	-	26,418,833	26,418,833
Total liabilities and equity	**83,054,615**	**13,066,587**	**17,609,396**	**7,191,099**	**13,847,755**	**69,250,011**	**204,019,463**
On-balance sheet gap	**29,217,645**	**11,178,492**	**(10,180,754)**	**8,104,332**	**18,738,232**	**(57,057,947)**	**-**
Off-balance sheet gap	**(1,322,234)**	**(3,358,401)**	**390,837**	**(3,125,076)**	**7,414,874**	**-**	
Total interest rate sensitivity gap	**27,895,411**	**7,820,091**	**(9,789,917)**	**4,979,256**	**26,153,106**	**(57,057,947)**	
Cumulative interest rate sensitivity gap	**27,895,411**	**35,715,502**	**25,925,585**	**30,904,841**	**57,057,947**	**-**	

Non-interest bearing items under loans and advances, net include mainly loan loss provisions.

42. Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest rate sensitivity position based on contractual repricing arrangements at December 31, 2013 was as follows:

December 31, 2013	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks	80,107	600,000	875,000	-	-	8,406,099	9,961,206
Deposits and balances due from banks	9,773,508	1,571,192	-	-	-	-	11,344,700
Trading securities	136,772	-	-	-	-	747,868	884,640
Derivative financial instruments	3,277,036	642	-	-	-	338,525	3,616,203
Investment securities	784,967	2,666,111	2,919,807	10,173,295	3,994,139	316,453	20,854,772
Loans and advances, net	89,162,675	16,134,140	1,072,446	9,477,933	23,417,673	(7,616,197)	131,648,670
Investment properties	-	-	-	-	-	560,690	560,690
Other assets	48,357	-	-	-	-	3,356,281	3,404,638
Property and equipment, net	-	-	-	-	-	805,322	805,322
Intangibles assets	-	-	-	-	-	61,695	61,695
Total assets	103,263,422	20,972,085	4,867,253	19,651,228	27,411,812	6,976,736	183,142,536
Liabilities and Equity							
Due to banks	4,282,208	8,803	-	-	-	-	4,291,011
Derivative financial instruments	2,894,125	789,473	-	-	1,417	280,572	3,965,587
Deposits from customers	70,170,504	11,434,930	7,658,851	604,872	1,154,703	24,403,848	115,427,708
Euro commercial paper	4,073,266	417,099	1,450,070	-	-	-	5,940,435
Borrowings	6,821,737	491,346	4,284,298	3,500,767	8,687,420	-	23,785,568
Other liabilities	-	-	-	-	-	4,910,917	4,910,917
Equity	-	-	-	-	-	24,821,310	24,821,310
Total liabilities and equity	88,241,840	13,141,651	13,393,219	4,105,639	9,843,540	54,416,647	183,142,536
On-balance sheet gap	15,021,582	7,830,434	(8,525,966)	15,545,589	17,568,272	(47,439,911)	-
Off-balance sheet gap	(771,279)	964,577	2,533,252	(7,337,694)	4,611,144	-	
Total interest rate sensitivity gap	14,250,303	8,795,011	(5,992,714)	8,207,895	22,179,416	(47,439,911)	
Cumulative interest rate sensitivity gap	14,250,303	23,045,314	17,052,600	25,260,495	47,439,911	-	

Non-interest bearing items under loans and advances, net include mainly loan loss provisions.

43. Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Bank's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Liquidity risk management process

The Bank has Board of Directors (BOD) approved liquidity risk appetite framework which establishes the minimum liquidity to be carried by the Bank in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on their behalf by the Asset Liability Committee (ALCO) on a day to day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due. ALCO also ensures that the bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

The Bank's liquidity management process, as carried out within the Bank and monitored by Bank's treasury department includes:

- Monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of future cash inflows/outflows and ensuring that the Bank can meet the required outflows;
- Regular liquidity stress testing conducted under a variety of scenarios covering both normal and more severe market conditions with well defined triggers and suggested actions; and
- Ensuring regular compliance with the liquidity ratios such as Advances to Stable Resources (ADR) ratio stipulated by the Central Bank of UAE.

The Bank has set an internal ceiling on the ADR ratio that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter-bank placements with a remaining life of more than three months; and
- the amount of stable resource comprising of free own funds with a remaining life of more than six months, stable customer deposits and standby liquidity facilities.

The above definition is in line with the Central Bank of UAE definition of the Advances to Stable Resources ratio.

Monitoring composition of funding sources at a granular level has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as percentage of the total liability position. Some of the ratios monitored are as follows:

- Euro commercial paper to total liabilities
- Wholesale funds to total liabilities
- Money market deposits to total liabilities
- Core funds to total liabilities
- Non-core funds to total liabilities
- Offshore funds to total liabilities

Tools for liquidity management

The Bank through its treasury department ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long term funding such as debt securities and subordinated liabilities issued under the Global Medium Term Note program.

43. Liquidity risk framework, measurement and monitoring (continued)

Tools for liquidity management (continued)

Whilst the Bank's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increase the liquidity risk of the Bank. Treasury manages this risk by:

- Diversification of funding sources and balancing between long term and short term funding sources through borrowing under its global medium term notes issue programs;
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- Investing in various short-term or medium term but highly marketable assets in line with Basel-III guidelines for High Quality Liquid Assets (HQLA) such as certificate of deposit with Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from the Central Bank of the UAE to manage its liquidity risk during critical times:

- Overdraft facility against its cash reserves at overnight rate at a spread of 150 basis points;
- Overdraft facility beyond the cash reserves at overnight spread of 300 basis points; and
- Repo facility against identified investments securities bonds for a maximum period of seven days on renewable basis at overnight rate with a spread of 100 basis points for CDs.

The Bank has access to Marginal Lending Facility (MLF) initiated by the Central Bank of UAE effective from March-2014. Under MLF, Bank can borrow from UAE Central Bank by posting eligible collateral. The Bank periodically tests MLF facility with the Central Bank for its operational readiness.

None of the above Central Bank facilities are utilized and outstanding at the end of the year.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in the 'less than 3 months' column at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value.

The maturity profile is monitored by management to ensure adequate liquidity is maintained.

43. Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2014 was as follows.

December 31, 2014	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	12,317,192	1,400,000	1,375,000	-	-	15,092,192
Deposits and balances due from banks	12,106,996	3,344,493	567,972	-	-	16,019,461
Trading securities	199,599	-	-	-	-	199,599
Derivative financial instruments	4,046,567	3,374	12,961	129,783	95,821	4,288,506
Investment securities	2,730,150	2,173,425	3,259,543	7,113,340	6,375,380	21,651,838
Loans and advances, net	13,247,824	3,880,910	4,559,945	19,453,338	99,420,481	140,562,498
Investment in associate	-	-	-	-	195,854	195,854
Investment properties	-	-	-	615,778	-	615,778
Other assets	2,592,567	509,290	1,445,473	4,514	-	4,551,844
Property and equipment, net	-	-	-	-	806,188	806,188
Intangibles assets	-	-	-	-	35,705	35,705
Total assets	**47,240,895**	**11,311,492**	**11,220,894**	**27,316,753**	**106,929,429**	**204,019,463**
Liabilities						
Due to banks	4,052,289	36,730	-	-	-	4,089,019
Derivative financial instruments	4,131,342	120,592	147,611	274,684	325,838	5,000,067
Deposits from customers	96,742,314	10,626,953	14,549,660	3,662,208	430,092	126,011,227
Euro commercial paper	3,398,994	1,265,598	1,710,692	-	-	6,375,284
Borrowings	4,522,596	2,594,569	1,349,044	7,629,836	14,224,076	30,320,121
Other liabilities	3,571,806	447,989	1,444,098	4,514	336,505	5,804,912
Equity	-	-	-	-	26,418,833	26,418,833
Total liabilities and equity	**116,419,341**	**15,092,431**	**19,201,105**	**11,571,242**	**41,735,344**	**204,019,463**
Balance sheet liquidity gap	**(69,178,446)**	**(3,780,939)**	**(7,980,211)**	**15,745,511**	**65,194,085**	**-**
Off balance sheet						
Financial guarantees and irrevocable commitments	**809,879**	**565,740**	**4,405,885**	**5,119,135**	**3,316,568**	**14,217,207**

43. Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2013 was as follows:

December 31, 2013	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	8,486,206	600,000	875,000	-	-	9,961,206
Deposits and balances due from banks	9,773,508	1,571,192	-	-	-	11,344,700
Trading securities	884,640	-	-	-	-	884,640
Derivative financial instruments	3,242,409	5,296	99,598	133,300	135,600	3,616,203
Investment securities	1,023,258	2,443,005	3,209,989	9,959,421	4,219,099	20,854,772
Loans and advances, net	11,640,656	6,329,907	2,678,998	16,632,585	94,366,524	131,648,670
Investment properties	-	-	-	-	560,690	560,690
Other assets	2,523,487	757,440	123,711	-	-	3,404,638
Property and equipment, net	-	-	-	-	805,322	805,322
Intangibles assets	-	-	-	-	61,695	61,695
Total assets	37,574,164	11,706,840	6,987,296	26,725,306	100,148,930	183,142,536
Liabilities						
Due to banks	4,282,208	8,803	-	-	-	4,291,011
Derivative financial instruments	3,157,792	6,026	15,263	276,006	510,500	3,965,587
Deposits from customers	94,574,351	11,434,930	7,658,851	604,872	1,154,704	115,427,708
Euro commercial paper	4,073,266	417,099	1,450,070	-	-	5,940,435
Borrowings	1,653,894	491,346	6,116,537	4,558,919	10,964,872	23,785,568
Other liabilities	3,773,663	757,440	123,711	-	256,103	4,910,917
Equity	-	-	-	-	24,821,310	24,821,310
Total liabilities and equity	111,515,174	13,115,644	15,364,432	5,439,797	37,707,489	183,142,536
Balance sheet liquidity gap	(73,941,010)	(1,408,804)	(8,377,136)	21,285,509	62,441,441	-
Off balance sheet						
Financial guarantees and irrevocable commitments	2,329,104	472,147	490,872	461,205	604,891	4,358,219

43. Liquidity risk framework, measurement and monitoring (continued)

The table below summarizes the maturity profile of the Bank's financial liabilities at December 31, 2014 and 2013 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. Derivative financial instruments held for trading are included in "less than 3 months" column at their fair value. The Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

December 31, 2014	Carrying Amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
Liabilities							
Due to banks	**4,089,019**	**4,089,886**	**4,053,058**	**36,828**	**-**	**-**	**-**
Derivative financial instruments	**5,000,067**	**5,023,682**	**4,077,474**	**214,931**	**113,896**	**281,165**	**336,216**
Deposits from customers	**126,011,227**	**126,468,608**	**96,874,067**	**10,711,147**	**14,711,405**	**3,733,361**	**438,628**
Euro commercial paper	**6,375,284**	**6,386,264**	**3,401,055**	**1,267,617**	**1,717,592**	**-**	**-**
Borrowings	**30,320,121**	**36,046,831**	**4,776,097**	**2,710,859**	**1,699,753**	**9,785,018**	**17,075,104**
Total financial liabilities	**171,795,718**	**178,015,271**	**113,181,751**	**14,941,382**	**18,242,646**	**13,799,544**	**17,849,948**
December 31, 2013							
Liabilities							
Due to banks	4,291,011	4,291,942	4,283,139	8,803	-	-	-
Derivative financial instruments	3,965,587	4,339,381	3,157,645	296,518	23,033	190,433	671,752
Deposits from customers	115,427,708	115,887,664	94,793,212	11,545,539	7,762,519	1,771,943	14,451
Euro commercial paper	5,940,435	5,948,973	4,075,207	417,338	1,456,428	-	-
Borrowings	23,785,568	27,262,021	1,797,738	680,881	6,232,724	5,420,030	13,130,648
Total financial liabilities	153,410,309	157,729,981	108,106,941	12,949,079	15,474,704	7,382,406	13,816,851

44. Foreign exchange risk framework, measurement and monitoring

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The sensitivity of currency fluctuation risk is given in Note 45. The foreign currency position on account of foreign currency contracts represents the nominal value of transactions dealt and remains outstanding under the Bank's trading and hedging portfolio at reporting date. The analysis of currency concentrations of the Bank's statement of financial position are presented below:

December 31, 2014	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	MYR AED'000	Others AED'000	Total AED'000
Assets								
Cash and balances with central banks	13,569,830	1,478,331	-	-	23	-	44,008	15,092,192
Deposits and balances due from banks	4,872,896	7,409,857	165,777	25,206	513,076	120	3,032,529	16,019,461
Trading securities	-	199,599	-	-	-	-	-	199,599
Derivative financial instruments	1,160,711	3,120,663	413	-	-	-	6,719	4,288,506
Investment securities	336,076	18,298,044	1,178,432	-	-	-	1,839,286	21,651,838
Loans and advances, net	107,694,204	32,089,205	33,706	-	17,551	-	727,832	140,562,498
Investment in associate	195,854	-	-	-	-	-	-	195,854
Investment properties	615,778	-	-	-	-	-	-	615,778
Other assets	813,806	3,308,119	71,601	5,190	15,110	33,092	304,926	4,551,844
Property and equipment, net	801,878	-	-	-	-	-	4,310	806,188
Intangibles assets	35,705	-	-	-	-	-	-	35,705
Total assets	**130,096,738**	**65,903,818**	**1,449,929**	**30,396**	**545,760**	**33,212**	**5,959,610**	**204,019,463**
Liabilities and Equity								
Due to banks	2,230,279	1,707,876	4,034	-	10	-	146,820	4,089,019
Derivative financial instruments	1,592,341	3,398,999	-	-	-	-	8,727	5,000,067
Deposits from customers	77,480,201	33,628,483	994,337	23,938	755,013	12	13,129,243	126,011,227
Euro commercial paper	-	3,231,920	1,082,659	619,295	1,441,410	-	-	6,375,284
Borrowings	173,923	28,301,397	1,126,752	-	-	31	718,018	30,320,121
Other liabilities	2,578,278	2,169,382	72,791	5,270	17,221	18,185	943,785	5,804,912
Equity	26,048,931	343,848	26,054	-	-	-	-	26,418,833
Total liabilities and equity	**110,103,953**	**72,781,905**	**3,306,627**	**648,503**	**2,213,654**	**18,228**	**14,946,593**	**204,019,463**
Net balance sheet position	**19,992,785**	**(6,878,087)**	**(1,856,698)**	**(618,107)**	**(1,667,894)**	**14,984**	**(8,986,983)**	**-**
Net FX position on account of FX contracts	**(1,564,369)**	**(3,935,482)**	**(1,662,920)**	**664,301**	**2,083,911**	**-**	**4,414,559**	**-**
Net FX open position	**18,428,416**	**(10,813,569)**	**(3,519,618)**	**46,194**	**416,017**	**14,984**	**(4,572,424)**	**-**

44. Foreign exchange risk framework, measurement and monitoring (continued)

December 31, 2013	AED AED'000	USD AED'000	EUR AED'000	CHF AED'000	GBP AED'000	MYR AED'000	Others AED'000	Total AED'000
Assets								
Cash and balances with central banks	8,831,948	1,025,723	61	-	-	-	103,474	9,961,206
Deposits and balances due from banks	3,414,750	2,081,363	677,034	207,318	483,193	-	4,481,042	11,344,700
Trading securities	477,038	192,511	-	-	-	-	215,091	884,640
Derivative financial instruments	307,197	222,384	2	-	-	-	3,086,620	3,616,203
Investment securities	229,494	19,557,530	547,029	-	-	-	520,719	20,854,772
Loans and advances, net	107,099,884	22,049,975	18,636	-	18,817	-	2,461,358	131,648,670
Investment properties	560,690	-	-	-	-	-	-	560,690
Other assets	664,112	2,335,381	83,088	7,547	1,417	35,382	277,711	3,404,638
Property and equipment, net	801,482	-	-	-	-	-	3,840	805,322
Intangibles assets	61,695	-	-	-	-	-	-	61,695
Total assets	122,448,290	47,464,867	1,325,850	214,865	503,427	35,382	11,149,855	183,142,536
Liabilities and Equity								
Due to banks	2,466,059	1,714,362	502	-	110,088	-	-	4,291,011
Derivative financial instruments	819,858	87,076	80	-	-	-	3,058,573	3,965,587
Deposits from customers	80,833,071	27,622,090	897,540	206,422	1,777,990	13	4,090,582	115,427,708
Euro commercial paper	-	2,424,180	1,568,178	618,385	1,329,692	-	-	5,940,435
Borrowings	136,315	23,037,084	554,022	-	-	-	58,147	23,785,568
Other liabilities	2,946,464	1,028,480	26,194	6,938	5,981	19,086	877,774	4,910,917
Equity	24,289,565	488,595	43,150	-	-	-	-	24,821,310
Total liabilities and equity	111,491,332	56,401,867	3,089,666	831,745	3,223,751	19,099	8,085,076	183,142,536
Net balance sheet position	10,956,958	(8,937,000)	(1,763,816)	(616,880)	(2,720,324)	16,283	3,064,779	-
Net FX position on account of FX contracts	(2,476,945)	(2,755,489)	1,773,259	634,450	2,686,374	-	138,351	-
Net FX open position	8,480,013	(11,692,489)	9,443	17,570	(33,950)	16,283	3,203,130	-

45. Market risk framework, measurement and management

The Bank's activities expose it primarily to market risk which is defined as the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates, commodity prices and credit spreads (not relating to changes in the obligor's/issuer's credit standing) which will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Bank separates its exposure to market risk between trading and banking book as defined below:

Market risk arising from trading book

Trading positions are held by the treasury group, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in consolidated income statement.

Market risk arising from banking book

Market risk from banking book arises from execution of the Bank's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the bank endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading such as but not limited to the Bank's investments in held-to-maturity and available-for-sale instruments, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Risk identification and classification

The MRCC approves market risk policies for the Bank. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

Management of market risk

The Board of Directors have set risk limits based on the Value-at Risk (VaR), Stressed Value at Risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits which are closely monitored by the risk management division and reported regularly to the senior management and discussed by ALCO.

Market risk is identified, measured, managed and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Bank's market risk profile transparent to senior management, the Board of Directors and Regulators.

45. Market risk framework, measurement and management (continued)

Management of market risk (continued)

Market risk management is overseen by the Management Risk and Credit Committee (MRCC) and performs the following primary functions:

- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk; and
- setting and monitoring of limits.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk. The Bank uses various matrices, both statistical and non-statistical, including sensitivity analysis.

Statistical risk measures

The Bank measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Bank measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every hundred days. The Board has set limits for the acceptable level of risks in managing the trading book.

The Bank uses simulation models to assess the possible changes in the market value of the trading book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day and intra-day risk levels may vary from those reported at the end of the day. The actual trading results however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Bank runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year as used in VaR.

The Bank's VaR for the year ended December 31 is as below:

Daily value at risk (VaR at 99% - 1 day)	**2014** **AED'000**	2013 AED'000
Overall risk	**(4,898)**	(4,318)
Average VaR	**(4,896)**	(4,212)

Non-statistical risk measures

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Bank's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Bank's market risk exposures.

45. Market risk framework, measurement and management (continued)

Risk measurement (continued)

Non-statistical risk measures (continued)

Independent market valuations/Greeks are validated by the market risk function in order to ensure that the market valuations/Greeks are measured correctly. The Bank uses first order Risk Greeks to monitor and control market risk on a day to day basis. The interest rate delta and vega and the foreign exchange delta and vega are computed daily and monitored against a limit. The Board has set limits for the delta and the vega within acceptable level of risks in managing the trading book.

Sensitivity analysis

To overcome the VaR limitations mentioned under statistical measure above, the Bank also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Bank's ALCO committee for their review.

Currency risk

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant (including the USD-AED currency pair which is pegged) – which would have an impact on the Bank's consolidated income statement:

	2014				2013			
Price Shock in Percentage	**+10% AED'000**	**-10% AED'000**	**+10pips AED'000**	**-10pips AED'000**	+10% AED'000	-10% AED'000	+10pips AED'000	-10pips AED'000
USD-AUD	**115**	**(115)**	**9**	**(9)**	(427)	(2,713)	3	(4)
EUR-USD	**313,230**	**15,381**	**(8)**	**26**	117,458	39,507	(18)	32
GBP -USD	**1,761**	**(13,680)**	**(14)**	**10**	(120)	120	(1)	1
USD-JPY	**(529)**	**(1,843)**	**-**	**-**	(126)	154	-	-
USD-CHF	**5,406**	**4,675**	**10**	**(4)**	3,794	19,346	(16)	18
USD-INR	**(16,648)**	**43,366**	**(3)**	**3**	(18,012)	22,015	(3)	3

During the year, the sensitivity monitoring practice has been revised from +/-10% to +/-5% movement in the foreign currency exchange rates to make the stress testing represent historical movements.

The following table depicts the sensitivity of fair valuations in the trading and non trading book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant (including the USD-AED currency pair which is pegged) – which would have an impact on the Bank's consolidated income statement:

	2014	
Price Shock in Percentage	**+5% AED'000**	**-5% AED'000**
USD-AUD	**57**	**(57)**
EUR-USD	**(6,838)**	**8,906**
GBP -USD	**(1,389)**	**(4,219)**
USD-JPY	**(206)**	**(351)**
USD-CHF	**2,643**	**1,903**
USD-INR	**(8,816)**	**18,173**

Interest rate risk - Trading book

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

45. Market risk framework, measurement and management (continued)

Risk measurement (continued)

Sensitivity analysis (continued)

Interest rate risk - Trading book (continued)

Relative instantaneous rate move shift for all tenors:

	2014		2013	
	+25%	-25%	+25%	-25%
	AED'000	AED'000	AED'000	AED'000
AED	54,635	(56,243)	(17,689)	29,346
USD	(39,435)	41,160	11,955	(20,087)

Interest rate risk - Banking book

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

	2014		2013	
	+25 bps	-25 bps	+25 bps	-25 bps
	AED'000	AED'000	AED'000	AED'000
Sensitivity of net interest income	52,941	(52,145)	26,783	(26,783)

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

46. Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risks can arise from all business processes and activities carried out by the bank and can expose the Bank to potentially large losses. The Bank manages operational risk exposures through a consistent set of management processes that include risk identification, assessment, control, mitigation and monitoring. The Operational Risk Management Framework is built on elements that allow the Bank to effectively manage and measure its operational risk profile and to calculate the amount of operational risk capital it needs to hold to absorb potential losses. The framework is governed by three lines of defense concept.

Each business group, as an integral part of their first line of defense responsibilities, is responsible for identifying and managing risks that arise from their activities. Identified operational risk exposures are rated 'Minor', 'Moderate', 'Significant' and 'Major' in accordance with defined risk assessment criteria. Significant and Major risks are analyzed to identify the root cause of any failure for remediation and future mitigation.

As the second line of defense, Group Operational Risk is responsible for setting and maintaining the standards for operational risk management and control. This includes defining appropriate policies and provides tools to manage and monitor operational risks within the Bank's activities. Group Operational Risk function is well supported by Business Operational Risk Managers, for identifying risks that are material to the Group and for maintaining an effective control environment across the organization. Additionally, a system has been implemented to ensure that operational risk data is consistently captured across the Bank in line with the regulatory framework. Products and services offered to clients and customers are also assessed and authorized in accordance with product governance policies and procedures. Operational risk reporting is an integral part of the governance framework. On a quarterly basis reporting is done to the Heads of Business Group, Senior Management Committees and the Board Risk Committee.

46. Operational risk management (continued)

As the third line of defense, Internal Audit function provides further independent review of the Bank's operational risk management processes, systems and controls and reports to the Board and Senior Management.

47. Foreign currency balances

Net assets amounting to Indian Rupee equivalent of AED 203,778 thousand (December 31, 2013 – AED 201,907 thousand) held in India are subject to the exchange control regulations of India.

48. Trust activities

As at December 31, 2014, the net asset value of the funds under the management of the Bank amounted to AED 2,895,168 thousand (December 31, 2013 – AED 1,910,018 thousand).

49. Subsidiaries

The following is the list of material subsidiaries of the Bank:

		Incorporation		
Name of subsidiary	**Ownership interest**	**Year**	**Country**	**Principal activities**
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services.
Abu Dhabi Commercial Finance Solutions LLC	100%	2005	UAE	Financial investments.
Abu Dhabi Commercial Investment Services LLC	100%	2005	UAE	Financial investments.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
ADCB Fund Management SARL	100%	2009	Luxembourg	Fund management company.
Al Nokhitha Investments Feeder Fund	82.81%	2009	Luxembourg	Mutual Fund.
MSCI UAE Index Fund Feeder Fund	99.81%	2009	Luxembourg	Mutual Fund.
Arabian Index Feeder Fund	78.14%	2009	Luxembourg	Mutual Fund.
Abu Dhabi Commercial Islamic Finance Pvt.J.S.C.	100%	2009	UAE	Islamic banking.
ITMAM Services FZ LLC (Formerly known as ADCB Services FZ LLC)	100%	2010	UAE	Transaction processing and back office support for related parties.
ADCB Islamic Finance (Cayman) Limited	100%	2011	Cayman Islands	Islamic financing activities.
ITMAM Services LLC	100%	2014	UAE	Transaction processing and back office support for related parties.
Omicron Capital (Cayman) Limited	100%	2014	Cayman Islands	Treasury financing activities.

50. Capital adequacy and capital management

Capital management process

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of United Arab Emirates;
- to safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The UAE Central Bank vide its circular No. 27/2009 dated November 17, 2009 informed all the Banks operating in the UAE to implement Standardized approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has issued guidelines for implementation of Standardised approach and banks are required to comply and report under Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank has given banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardized approach is used by the Bank in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Bank uses the standardised approach.

Operational risk: Basel II includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Bank has adopted the standardised approach in determining the operational risk capital requirements.

The Bank also prepares an annual comprehensive ICAAP (Internal Capital Adequacy Assessment Process) document. This document is a detailed assessment by the Bank of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

The Bank's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

50. Capital adequacy and capital management (continued)

Capital management process (continued)

Capital supply

As per Basel II requirement, capital should comprise of the following:

Tier 1 capital includes paid-up share capital, share premium, published reserves (including post-tax retained earnings but excluding positive balance of cummulative changes in fair value), hybrid Tier 1 instruments (with prior approval from Central Bank) and non-controlling interests in the equity of subsidiaries less than wholly-owned.

Deductions are made from Tier 1 core capital as per the Basel guidelines/Central Bank of UAE rules and includes goodwill and other intangibles at net book value, adjustments for the cumulative effect of foreign currency translation, negative balance of cummulative changes in fair value, own shares held - at net book value taking account of any provisions made against the acquisition value, current year loss/retained losses, shortfall in provisions and other deductions to be determined by Central Bank of UAE.

Tier 2 capital includes collective provisions per Basel guidelines and UAE Central Bank rules, undisclosed reserves, asset revaluation reserves/cumulative changes in fair value, hybrid (debt/equity) capital instruments and subordinated term loan.

Tier 3 capital includes principal form of eligible capital to cover market risks and consists of shareholders' equity and retained earnings (Tier 1 capital) and supplementary capital (Tier 2 capital). Subject to prior approval from the Central Bank of the UAE, banks may employ a third tier of capital (Tier 3), consisting of short term subordinated debt as defined in paragraph 49(xiv) of Basel II, for the sole purpose of meeting a proportion of the capital requirements for market risks, subject to the conditions in paragraph 49(xiii) and 49(xiv).

Securitised Assets

Exposures to securitised assets that are rated B+ and below (long term), below A3/P3 (short term), or are un-rated are deducted from the capital base and the deductions will be 50% from Tier 1 and 50% from Tier 2 capital.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Bank's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by Bank Risk & Credit and Finance functions and is subject to review by the ALCO as appropriate.

50. Capital adequacy and capital management (continued)

Capital adequacy ratio

The ratio calculated in accordance with Basel II guidelines is as follows:

	2014 AED'000	2013 AED'000
Tier 1 capital		
Share capital (Note 20)	**5,595,597**	5,595,597
Share premium	**3,848,286**	3,848,286
Other reserves, net of treasury shares (Note 21)	**5,540,106**	4,784,282
Retained earnings	**7,172,755**	5,597,275
Non-controlling interests in equity of subsidiaries	**10,397**	644,712
Capital notes (Note 24)	**4,000,000**	4,000,000
Less: Intangible assets (Note 14)	**(35,705)**	(61,695)
Less: Investment in associate (Note 52)	**(97,927)**	-
Total tier 1 capital	**26,033,509**	24,408,457
Tier 2 capital		
Collective impairment allowance on loans and advances	**1,709,253**	1,684,495
Cumulative changes in fair value (Note 21)	**113,261**	158,021
Subordinated notes (Note 18)	**4,439,637**	4,904,727
Less: Investment in associate (Note 52)	**(97,927)**	-
Total tier 2 capital	**6,164,224**	6,747,243
Total regulatory capital	**32,197,733**	31,155,700
Risk-weighted assets		
Credit risk	**136,740,240**	134,759,561
Market risk	**4,497,079**	4,890,071
Operational risk	**11,835,586**	7,216,753
Total risk-weighted assets	**153,072,905**	146,866,385
Capital adequacy ratio	**21.03%**	21.21%
Tier 1 ratio	**17.01%**	16.62%
Tier 2 ratio	**4.02%**	4.59%

The capital adequacy ratio was above the minimum requirement of 12% for December 31, 2014 (December 31, 2013 – 12%) stipulated by the Central Bank of the UAE.

Tier 1 capital comprises the following resources:

(a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.

(b) Statutory & Legal Reserves:
   (i) Statutory reserve: As required by Article 255 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly an amount of AED 404,973 thousand has been transferred to statutory reserve during the year (December 31, 2013 – AED 336,531 thousand). The statutory reserve is not available for distribution.
   (ii) Legal reserve: In accordance with the Article 82 of Union Law No 10 of 1980 and Article 84 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly an amount of AED 404,973 thousand has been transferred to legal reserve during the year (December 31, 2013 – AED 336,531 thousand). The legal reserve is not available for distribution.

50. Capital adequacy and capital management (continued)

Tier 1 capital comprises the following resources (continued)**:**

(c) General reserve & Contingency Reserves:
   (i) General reserve: In accordance with Article 84 of the Memorandum and Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.
   (ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

(d) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.

(e) Foreign currency translation reserve: The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

(f) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.

(g) Non-controlling interests in equity of subsidiaries.

(h) Capital notes: In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier 1 regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "Notes"). The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. Redemption is only at the option of the Bank.

Deductions from Tier 1 resources include intangible assets and 50% of investment in associate.

Tier 2 capital comprises the following resources:

(a) Collective impairment on loans and advances limited to 1.25% of credit risk-weighted assets.

(b) Cumulative changes in fair value - The cumulative changes in fair values includes the cumulative net change in the fair value of available-for-sale investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive. But if the balance is negative, the entire balance is adjusted in Tier 1 capital.

(c) Eligible subordinated notes (Note 18).

Deductions from Tier 2 resources include 50% of investment in associate.

51. Disposal of fund subsidiaries

On March 31, 2014, the Bank redeemed substantial units in Al Nokhitha Investments Feeder Fund, MSCI UAE Index Feeder Fund and Arabian Index Feeder Fund which resulted in reduction of its indirect stake in Al Nokhitha Fund, ADCB MSCI UAE Index Fund and ADCB Arabian Index Fund (the "Funds") and consequently its exposure to variable returns from its involvement in these Funds reduced considerably to a level that led the Bank to conclude that there is a loss of control over these subsidiaries. The residual interest in these Funds is classified as available-for-sale investments as per IAS 39 (Note 39).

Analysis of net assets over which control was lost

	AED'000
Bank balances	226,121
Trading securities	867,792
Other assets	11,888
Total assets	**1,105,801**
Other liabilities	4,218
Non-controlling interests	836,495
Total liabilities	**840,713**
Net assets over which control was lost	**265,088**

Sales consideration

	AED'000
Cash consideration received	95,112
Fair value of residual interest classified as available-for-sale investments	169,976
Total sales consideration	**265,088**
Less: Fair value of net assets over which control was lost	**265,088**
Gain on disposal of fund subsidiaries	**-**

Net cash inflow on disposal of fund subsidiaries

	AED'000
Consideration received in cash and cash equivalents	95,112

Fair value of residual interest has been booked as transfer to available-for-sale investments and this being a non-cash transaction has not been reflected in the consolidated statement of cash flows.

Net gains amounting to AED 91,521 thousand on treasury shares held by the fund subsidiaries pertaining to previous periods were recognised in retained earnings on the date of loss of control.

52. Investment in associate

Investment in associate includes the Bank's interest in an immaterial associate representing 35% equity stake in the entity. The Bank has determined that it exercises significant influence based on the representation in the management of the entity. The investment in associate has been accounted in the consolidated financial statements using the equity method at the net fair value of the identifiable assets and liabilities of the associate on the date of acquisition.

53. Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Bank's consolidated financial statements if disposed unfavourably.